A9330-4

THE FEDERAL BUDGET AND THE CITIES

A Review of the President's Budget
for Fiscal Year 1987
October 1, 1986 to September 30, 1987

FEBRUARY 1986

Prepared by
UNITED STATES CONFERENCE OF MAYORS
1620 Eye Street, Northwest
Washington, D.C. 20006
(202) 293-7330

Copyright 1986 by the United States Conference of Mayors.
All rights reserved.

Published by the United States Conference of Mayors
1620 Eye Street, N.W., Washington, D.C. 20006

John J. Gunther, Executive Director
United States Conference of Mayors

Additional copies of this publication may be obtained from the U.S. Conference of Mayors, 1620 Eye Street, N.W., Washington, D.C. 20006

The price of this publication is $15.00

CONTENTS

PREFACE	i
OVERVIEW	iii
BUDGET PROCESS	1
ECONOMIC AND TAX POLICY	5
AGING	13
ARTS AND HUMANITIES	17
COMMUNITY DEVELOPMENT AND HOUSING	19
DEFENSE	27
ECONOMIC AND BUSINESS DEVELOPMENT	31
EDUCATION	35
EMPLOYMENT AND TRAINING	39
ENERGY	43
ENVIRONMENT	47
FISCAL ASSISTANCE	51
FOOD STAMPS AND NUTRITION	53
HEALTH	55
HUMAN SERVICES	59
INCOME SECURITY	61
PUBLIC SAFETY	65
SCIENCE AND TECHNOLOGY	69
TRANSPORTATION	71
VETERANS	75
GLOSSARY	79

PREFACE

This report, "The Federal Budget and the Cities," examines the budget from an urban perspective. The first sections offer a general overview of the budget as well as fiscal and tax policies. Other sections deal with various federal functions, ranging from housing and community development to defense and general revenue sharing.

The budget is the single most important federal document published each year. It is the vehicle for the formulation of economic and fiscal policy and represents the most significant and comprehensive collection of the priority decisions that the United States government makes in the course of a year.

The FY87 budget comes at a time of continuing national concern with unemployment, hunger and homelessness. It also comes at a time when many cities continue to experience severe economic and fiscal hardships. This year, Gramm-Rudman-Hollings adds new urgency to city budget concerns.

This study is prepared by the staff of the United States Conference of Mayors. The Conference, founded in 1933, represents the largest cities in America -- those with a population of 30,000 or more. Judgments made in this document are based on policies adopted by the Mayors.

John J. Gunther
Executive Director
U.S. Conference of Mayors

February 7, 1986

OVERVIEW

The Administration once again in its FY87 budget proposes to terminate or substantially reduce many important urban and low income programs. The budget continues the dramatic realignment of spending priorities begun in 1981, with less revenue, a substantial shrinking of much of the domestic budget, and the continued buildup of military spending.

The President is recommending the complete elimination of general revenue sharing, the Urban Development Action Grant (UDAG) program, most public transit assistance, Small Business Administration (SBA) loans, most subsidized housing activities, the Economic Development Administration (EDA), the Community Services Block Grant (CSBG), funds for the hungry and homeless, Legal Services, the Work Incentive Program, housing rehabilitation loans, juvenile justice, and by FY90, wastewater treatment grants. Other major urban programs would be substantially reduced, including Community Development Block Grants (CDBG), Job Corps, summer youth jobs, child nutrition, vocational education, Medicaid, refugee programs, Food Stamps, and Aid to Families with Dependent Children (AFDC).

If the President's budget is adopted, major federal programs of benefit to cities will decline by 71 percent in dollar levels over the period FY81-87, and by more than 82 percent in real terms, after adjusting for inflation. Devastating reductions in 13 urban programs are summarized in the table following in this section.

Total federal grants to state and local governments would be reduced by 33 percent in constant dollars from FY81-87. From FY86 to FY87 alone, grants-in-aid, excluding payments to individuals, would drop from $57.8 billion to $50.6 billion, or 13 percent.

Along with the budget submission the Administration is proposing rescissions and deferrals of FY86 funds already appropriated by the Congress. These actions affect many important urban programs, including: general revenue sharing, CDBG, UDAG, assisted housing, the EDA, elementary and secondary education, juvenile justice, summer youth jobs and public transit. These proposals artificially depress the FY86 spending figures contained in the budget and misrepresent the FY87 cuts as smaller than they actually are. Altogether, over $10 billion in FY86 rescissions are proposed by the President; $7.5 billion of these occur in urban programs. Major rescissions and deferrals proposed by the President are summarized in the table.

The Administration asserts in the budget document that programs for the dependent poor and the elderly are "high priority" programs and receive "significant funding in the budget." The fact is that programs which aid the poor would decline by $9 billion in FY87 and $23 billion over the next five years. Moreover, many of the programs which would be reduced are those aiding poor children -- Medicaid, AFDC, summer youth jobs, assisted housing, child nutrition, and Food Stamps. At a time when the majority of children in many urban areas live below the poverty line, and when the number of single parent households continues to increase, these budget cuts seem particularly harmful and counterproductive.

Cities and their low-income citizens have suffered year after year of budget reductions. Now, in the FY87 budget, they are being asked to take yet another round of inequitable and disproportionate budget cuts. While state and local aid comprises only five percent of the federal budget, almost all of the FY87 spending reduction occurs in these programs.

Mayors are concerned about continued high federal deficits and recognize the political realities of Gramm-Rudman-Hollings. However, while urban programs have declined in recent years in actual dollar levels, the federal deficits have continued to climb. Clearly, there are many other causes for the federal deficits. Defense spending alone has increased by $125 billion since FY81, an 80 percent increase. Revenues have declined substantially due to the 1981 tax cut and continued high unemployment.

The FY87 reductions in urban programs come at a time when cities confront growing and seemingly intractable human problems. Many of these problems are the result of a failure to achieve a truly nationwide economic recovery. Unemployment rates remain very high in most central cities, with minority unemployment still at double-digit levels. Many cities continue to experience an increase in hunger and homelessness, increased demand for local emergency assistance and longer waiting periods for subsidized housing units. The poor have not benefited from the economic recovery in many cities; indeed, in many cases they are worse off. Increasing numbers of children and single-parent families live below the poverty line and are in need of special nutrition, shelter and health services. Few cities have been able to meet these needs.

Many cities also continue to face budget and economic problems -- operating budget reductions, service cuts, layoffs and tax increases, and the exodus of middle-income taxpayers. The problems will intensify if general revenue sharing and other key programs are eliminated, since much federal aid helps to finance basic city services, important infrastructure investments, human needs and health programs.

Cities are constrained in their ability to meet the needs of their citizens. Few cities have sufficient revenue authority to finance the new

responsibilities thrust on them in recent years by the federal government. At the same time, the Administration and the Congress have continued to erode the ability of cities to borrow funds in the bond markets. The tax laws adopted in 1982 and 1984 have curtailed the ability of cities to issue certain types of bonds. Now, the House of Representatives has adopted a tax reform proposal which would continue this erosion. The Administration continues to recommend legislation which would eliminate the tax exemption of up to 75 percent of all bonds and undermine the ability of cities to raise revenues by removing the deductibility of all state and local taxes.

The cuts and program eliminations proposed in the FY87 budget will adversely affect the ability of cities to develop their local economies and revitalize older or distressed neighborhoods. Cities have made great strides in recent years, with the help of federal programs, in stimulating the startup of small and minority businesses, creating jobs for the unemployed and drawing private dollars back to deteriorating downtowns. The proposed elimination of UDAG, SBA, housing assistance, general revenue sharing and EDA, together with cuts in CDBG and other programs, threaten to halt this urban recovery in the most distressed areas of cities.

The proposed FY87 budget cuts also threaten further cancellations of important infrastructure projects in cities, with proposed cutbacks in public transit, wastewater treatment, highway, revenue sharing and CDBG programs. The FY87 budget will cut nearly $7 billion from capital programs of benefit to cities, with further reductions scheduled for FY88-91. Moreover, two of the most direct infrastructure programs would be restructured into block grants with few protections for urban areas.

Cuts in infrastructure and economic development assistance undermine the past decade's progress in forging public-private partnerships. Much of the private investment in cities in recent years has been stimulated by the federal government through UDAG, EDA, SBA, science and technology programs, industrial development bonds, and many other initiatives. If these are eliminated or reduced, private dollars may not be forthcoming; indeed, they are apt to go elsewhere -- away from the cities, or even overseas.

The cuts in urban and low-income programs stand in stark contrast to the treatment of defense spending and foreign military spending. Over $1.6 trillion will be spent on defense over the period FY81-87. The one year increase from FY86 to FY87 is nearly $34 billion in budget authority. So many funds have been poured into the Defense Department that it cannot be spent fast enough. Unspent balances at Defense will total $342 billion at the end of FY87.

The trend in defense versus domestic spending has shifted substantially over the last few years -- a shift which is expected to continue in the future. State and local grants would decline from 11.7 percent of total

federal outlays in FY87 to 4.0 percent in FY91, while defense would escalate from 22.8 percent of outlays to 32.6 percent over the same period.

The Conference of Mayors has several specific programmatic concerns about the proposed FY87 budget. We are deeply troubled about proposals to cut or eliminate the following programs:

- General Revenue Sharing: The Administration proposes the complete elimination of the program in FY87. Revenue sharing is a fundamental component of city budgets; its elimination will necessitate massive cuts in basic city services and unprecedented increases in local taxes.

- Community Development: The FY87 budget proposes to reduce Community Development Block Grants by 32 percent, from $3.1 billion to $2.1 billion. In addition, there is a recommendation to change the current 70/30 percent entitlement/nonentitlement split to 65/35. This will result in a further reduction in assistance to many cities. The Section 108 loan guarantee program and the Section 312 rehabilitation program would be terminated and some of their FY86 funding rescinded.

- Urban Development Action Grants: This program would be eliminated and FY86 funding would be rescinded. UDAG has been an extremely effective tool in leveraging private funds ($7 for each $1 of public investment) and for revitalizing cities.

- Economic Development: The Administration proposes to eliminate the Economic Development Administration in FY86 through proposed rescissions and deferrals. All loan programs of the Small Business Administration would be eliminated in FY87 and the existing loan portfolio transferred to the Treasury Department for liquidation and sale.

- Assisted Housing: The FY87 budget proposes no funding for Section 8 subsidized housing programs, the Section 202 program for the elderly and handicapped, the Rental Housing Development Grant (HODAG) program, the Rental Rehabilitation Grant program and Public and Indian housing. In addition, significant funds for these programs are proposed for rescission in FY86. In lieu of these existing programs, the Administration proposes 50,000 housing vouchers in FY87.

- Transportation: The Administration proposes an overall reduction in public transportation funds of 65 percent, from $3.5 billion to $1.2 billion, including the termination of the discretionary program for new starts and expansions, the elimination of operating

assistance for all but the smallest urban and rural areas, and the end of separate funding for the interstate transfer program. These reductions will result in higher transit fares, service cuts and shut-downs in cities. Transportation programs funded by the gas tax would be consolidated into a new block grant, with a significant state role. Airport funding would be cut by 20 percent. Amtrak funding would be completely eliminated.

- Job Training: Major reductions in FY86 and FY87 funding are proposed for the summer youth employment program and the Job Corps. Also proposed is the elimination of the Work Incentive Program for recipients of Aid to Families with Dependent Children (AFDC), and a 50 percent reduction in vocational education assistance.

- Environmental Protection: The FY87 budget proposes a 25 percent cut in wastewater treatment grants, with a phaseout thereafter and zero funding by FY90. Again, the Administration proposes to eliminate all funding for the urban parks program, the Land and Water Conservation Fund and Historic Preservation grants.

- Criminal Justice: The budget ends all funding for programs which provide criminal justice assistance to state and local governments in FY87 and proposes a rescission of all unspent funds in FY86. These programs include the juvenile justice and delinquency prevention program and the state and local grant program.

- Low Income Programs: The Administration proposes the elimination of the Community Services Block Grant, Legal Services and all funding for emergency food and shelter activities. These cuts are proposed at a time when the demand for emergency assistance continues to grow in many cities. Aid to Families with Dependent Children, child support enforcement and refugee assistance would be cut. FY86 funds would be rescinded for refugee aid.

- Nutrition: Food Stamps and child nutrition aid would be reduced and all emergency food programs for the hungry would be eliminated. The reductions in food stamps and child nutrition would be accomplished by reducing the number of participants. The elimination of many children from eligibility for subsidized lunches is likely to result in many schools discontinuing their lunch programs, and thus denying lunches to large numbers of children who would be eligible for the subsidy.

- Health: Medicare and Medicaid spending would be reduced substantially -- by $70 billion -- over the next five years. This will result in increased costs for cities with responsibility for

Medicaid, public hospitals and other health services. Budget cuts and rescissions are also proposed for AIDS programs.

- Energy Conservation: The Administration proposes to eliminate the conservation grants program which provides funds to state and local governments to undertake energy conversation measures for schools, hospitals and low income homeowners.

- Credit Programs: Direct loan programs would be slashed, including those for rehabilitation loans, the SBA, and the EDA. Altogether, direct loans would be cut by $22 billion over a two year period. Guaranteed loans would also be reduced sharply.

The Conference of Mayors will be working with the Congress to formulate a budget which truly meets the needs of our nation and our cities and the people who reside in them. We are hopeful that a budget will be designed by the Congress that treats all Americans more fairly.

REDUCTIONS IN MAJOR URBAN PROGRAMS
FY81-87
BUDGET AUTHORITY
(Dollars in Billions)

PROGRAMS	1981	1985	1986	1987	% Change FY81-87
General Revenue Sharing	4.6	4.6	3.4	---	-100%
Community Development Block Grants	3.7	3.5	3.1	2.1	-43%
Urban Development Block Grants	.68	.44	.33	---	-100%
Economic Development Administration	.42	.23	.18	---	-100%
Subsidized Housing	24.8	12.2	6.3	---	-100%
Urban Public Transit	4.4	4.2	3.7	1.2	-73%
EPA Wastewater	3.3	2.4	2.4	1.8	-45%
Job Training	7.9	3.8	3.5	2.9	-63%
Work Incentive Program	.37	.27	.22	---	-100%
Elementary, Secondary & Vocational Education	5.7	6.8	6.9	6.2	+9%
Child Nutrition	3.3	3.6	3.7	3.2	-3%
Community Service	.53	.37	.37	---	-160%
Emergency Food and Shelter	---	.09	.07	---	-100%
TOTAL	59.7	42.5	34.2	17.4	-71%

Source: U.S. Budget, FY87, Special Analysis H 30-34

PROPOSED FY86 RESCISSIONS AND DEFERRALS
(Dollars in Millions)

RESCISSIONS

General Revenue Sharing	298
Assisted Housing	4,413
UDAG	206
Summer Youth & Job Corps	416
Juvenile Justice Grants	122
Public Transit	298
Section 108 Loan Guarantee	163
Housing Counselling Deferrals	3
Historic Preservation Grants	19
Elderly Feeding Program	5
EDA	101
Education	38
Immigrant Education	29
Handicapped	44
Vocational Education	210
Community Services	182
Work Incentive Program	45
Child Abuse & Welfare	31
Medicare & Medicaid	912
AIDS	41

DEFERRALS

CDBG	500
EDA	40
Assisted Housing	2,300

BUDGET PROCESS

The Gramm-Rudman-Hollings deficit reduction law will mean sweeping changes in the balance of budget-making authority between the Congressional and Executive Branches, the schedule for action on the budget and the cuts which are likely to be made in urban programs. Key features of the Gramm-Rudman-Hollings law are summarized below.

CUTS IN URBAN PROGRAMS

In FY86, no more than $11.7 billion in additional cuts will be made in federal spending, half from domestic programs and half from defense spending. The Administration has announced that effective March 1, appropriations levels will be cut by 4.3 percent across the board for most urban programs, including General Revenue Sharing, Community Development Block Grants, public transportation, and UDAG.

Much domestic federal spending is protected from cuts either entirely (Social Security, eight low income programs, the earned obligations) or partially (various other retirement programs, Medicare, low income health programs, student loans, unemployment compensation, federal pay, agricultural price supports and others). Given the large percentage of the domestic budget that is protected, other programs that benefit cities and their residents must take a larger than proportional spending cut.

In FY87, the Congress is free to cut programs as it sees fit to achieve the deficit level of $144 billion. However, if Congress and the President are not able to reach agreement on appropriations bills, the President is once again required to make automatic across-the-board reductions in spending, with half to come from defense and half from domestic programs. If this "sequestration process" is followed for FY87, urban programs would be further reduced by approximately 25 percent, possibly more.

MANDATED DEFICIT LEVELS

The federal deficit must be lowered to $144 billion in FY87, $108 billion in FY88, $72 billion in FY89, $36 billion in FY90, and a balanced budget must be achieved in FY91.

There are various enforcement mechanisms in the Gramm-Rudman-Hollings law allowing points of order to be raised against any legislation, budget resolution, or Congressional actions which would breach the deficit figures.

In the event of an economic recession, the deficit levels could be overridden by the Congress through a joint resolution requiring Presidential signature. This could only be done if the Congressional Budget Office (CBO) or the Office of Management and Budget (OMB) projects that real economic growth would fall below zero for two consecutive quarters, or when actual Commerce Department statistics show that real economic growth has already fallen below one percent for two consecutive quarters.

AUTOMATIC SPENDING REDUCTION PROCESS (SEQUESTRATION)

For FY87 and beyond, the President would be forced to order across-the-board spending reductions whenever the OMB, CBO and the General Accounting Office project that the deficit for the upcoming fiscal year will exceed the maximum limit by more than $10 billion. After the President issues the order, the Congress has one month to enact legislation bringing down the deficit to the mandated level. Otherwise, the Presidential order takes effect.

As with FY86, half of the outlay savings must be made in defense spending, half in domestic programs. Again, many domestic programs would be exempt from cuts or partially protected as special cases. However, most urban programs are not protected in any way, so the full cut would be made in these activities under automatic sequestration.

NEW BUDGET TIMETABLE

There is a new budget timetable for Congressional consideration of the budget resolution and appropriations bills and for the President to order automatic cuts, if any. The most important changes are that, in the future, the President must submit his budget on the first Monday after January 3, the budget resolution must be completed by April 15, and the House must complete action on appropriations bills by June 30. In addition, there is a completely new timetable for the President to sign the automatic spending reduction order.

The new budget timetable for FY87 and beyond is summarized below.

- First Monday after January 3 -- the President must submit his budget.

- April 15 -- Congress adopts the conference report on the budget resolution, changed from deadline of May 15 (often not observed) for the conference report on the first budget resolution under the existing process.

- June 10 -- House Appropriations Committee reports the last appropriation bill.

- June 15 -- Congress completes action on all reconciliation legislation.

- June 30 -- House completes action on all regular appropriations bills.

Under the conference agreement, the House could not adjourn for the July 4 recess unless the House has completed action on reconciliation and on all regular appropriations bills.

- August 20 -- OMB and CBO report to GAO regarding their projections for the fiscal year due to begin on October 1 (based on legislative action and economic conditions as of August 15).

- August 25 -- GAO issues report to President and Congress, based on OMB and CBO projections.

- September 1 -- President issues initial spending reduction order (if protected deficit exceeds limit by more than $10 billion), making sufficient spending reductions to bring the deficit below the allowable limit.

- October 5 -- OMB and CBO report to GAO regarding their revised deficit projections, indicating to what extent any excess deficit has been eliminated through legislation enacted since their first report -- including legislation enacted since the President issued the initial spending reduction offer -- and providing revised estimates of the additional deficit cuts needed.

- October 10 -- GAO issues revised report to the President and Congress, based on revised OMB/CBO projections.

- October 15 -- President issues revised spending reduction order, effective upon issuance, making whatever spending cuts are needed to eliminate any remaining deficit in excess of the limits.

- November 15 -- GAO reports to Congress as to whether the President's spending reduction order complies with the requirements of the law.

ECONOMIC & TAX POLICY

ECONOMIC ASSUMPTIONS

In the budget, the Administration projects that the average annual unemployment rate will remain well above six percent until 1990. By historical standards, these are very high unemployment rates and contribute significantly to the deficit problems. Each one percent of unemployment contributes nearly $30 billion to the deficit.

Other economic assumptions are optimistic, with inflation expected to average about 3.3 percent (CPI) over the next eight years and long term interest rates to drop considerably from the current 10.6 percent to 4.5 percent by 1991. A few of the more important economic assumptions are highlighted in Table 1.

FEDERAL DEFICITS

The federal deficit for FY87 would be $144 billion, the level mandated under the new Gramm-Rudman-Hollings law.

The federal debt is now equal to 51.1 percent of the GNP, the highest level since World War II. Since FY81 over $1.5 trillion has been added to the public debt. Given the magnitude of the deficit and the debt, they can be expected to have a significant effect on inflation, interest rates and long term economic health.

In the FY87 budget, the Administration blames the escalation in deficits and the debt on domestic spending, asserting that tax reductions and defense spending are not to blame. However, over $151 billion in receipts will be lost in FY87, because of the 1981 tax cut, although seven other more moderate tax increases have been enacted since then. Without those tax increases, the loss in revenue would have been $249 billion. Moreover, defense spending has risen by $125 billion since FY81, an 80 percent increase in dollar levels. Higher than normal unemployment rates have also contributed to the deficits.

FEDERAL SPENDING: STATE AND LOCAL GRANTS

Total federal outlays are still slightly under $1 trillion -- $994 billion, roughly the same level as in FY86.

The FY87 budget proposes a total of $38.2 billion in domestic spending cuts, most of which are in state and local grants-in-aid. Altogether, total grants to state and local governments have declined by 33 percent in constant dollars over the period FY81-87.

Urban programs have been the hardest hit, with 13 major urban programs slashed by 71 percent in actual dollar levels and nearly 82 percent after accounting for inflation from FY81-87.

TAX POLICY

The Administration's budget begins to reverse the pronounced shift of recent years in the federal revenue structure, with corporate income taxes rising somewhat in relative importance and social security and individual income taxes falling slightly in prominence. This is largely due to the President's tax reform proposals, which are included in the receipts totals.

However, even with these proposals, the predominant shift over the last two decades has been toward a greater tax burden on low income workers and a lighter proportional burden on corporations. Corporate income taxes, which once accounted for 40 percent of all taxes collected, account for only 10 percent in FY87. Social security taxes have risen from eight percent of all revenue collected to 36 percent in FY87. This trend was significantly accelerated with the 1981 tax cut.

The FY87 budget reiterates the Administration's call for comprehensive tax reform. Because the plan is "revenue neutral," there is no effect shown in the budget.

The Administration is deferring resubmission of enterprise zones, stating in the budget document that a proposal will not be resubmitted until the Congress has completed consideration of the tax reform package.

The Administration's budget outlines modest tax increases of $6.3 billion in FY87. Some of their tax proposals have been offered in previous budgets and were not adopted by the Congress. The Administration's receipts proposals include the following:

- Tax Incentives For Higher Education: The Administration is again proposing legislation to exclude from taxation the earnings on savings deposited in special accounts that would be used to pay future higher education expenses of dependent children. The maximum annual contribution to these accounts would be $1,000 per child. However, this maximum would be reduced 5 cents for each dollar that the taxpayer's adjusted gross income exceeds $40,000, so that any taxpayer with adjusted gross income in excess of $60,000 would be ineligible. Eligible expenses generally would be

tuition and room and board for a full-time student enrolled in a postsecondary education program leading to a degree or certificate. Eligible expenses for a part-time (but not less than half-time) student would be tuition only. Deposits to these accounts could only be made if the dependent children on whose behalf the savings were made were under age 18. In no case could an account be kept open for a child over the age of 25. Eligible expenses would not include amounts paid to schools that follow a racially discriminatory policy. This proposal would be effective January 1, 1987, and is estimated to reduce receipts by $200 million in 1988.

- Tuition Tax Credit: The Administration is reproposing legislation to provide taxpayers a nonrefundable credit for 50 percent of tuition expenses paid to private elementary and secondary schools for certain qualified dependents. The maximum credit allowable for each dependent would be $100 in 1986, $200 in 1987, and $300 thereafter, with the maximum amount in each year phased out for taxpayers with adjusted gross incomes between $40,000 and $60,000. This proposal, which would be effective for expenses incurred after July 31, 1986, is estimated to reduce receipts by $400 million in 1987.

- State and Local Deposit of Social Security Payroll Taxes: States currently are required to make semi-monthly deposits of social security taxes on their own behalf and for sub-state entities. The Administration is again requesting legislation that would remove the states' liability for deposit taxes by sub-state entities and conform the state and local government deposit schedule to the more frequent private sector schedule over a three year period beginning October 1, 1986. Late deposits by state and local employers would be subject to the same penalties and interest charge as private employers, rather than the current interest charge of only six percent. These changes are estimated to increase receipts $400 million in 1987, $300 million in 1988, and $1.2 billion in 1989.

- Internal Revenue Service (IRS) User Fees: The Administration is again proposing that the IRS impose fees on letters of determination and private letter rulings. The IRS, upon written request by a taxpayer, will issue a private letter ruling to give assurance of the IRS position on a transaction under consideration. This assures that the transaction can be completed in such a way that it will not be challenged by the Government. Determination letters primarily concern employee benefit plans and tax exempt organizations. These fees, proposed to become effective October 1, 1986, are estimated to increase receipts by less than $100 million in 1987.

- Hazardous Substance Response Trust Fund: The Administration proposes to reauthorize and expand the taxing authority under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, which expired September 30, 1985. The taxes levied under this authority are used to finance the Hazardous Substance Response Trust Fund, commonly referred to as "Superfund," which pays for the cleanup of hazardous waste sites. The proposed taxes, which are estimated to increase receipts to the trust fund above the current law level by $400 million in 1986 and $900 million in each year, 1987-1989, would be sufficient to finance the level of spending proposed by the Administration for hazardous waste site cleanup in 1986 and later years. No appropriation from the general fund of the Treasury will be requested.

- Repeal Gasohol and Bus Exemptions: Under current law gasohol is provided a five-cents-per-gallon exemption from the nine-cents-per-gallon excise tax on gasoline and diesel fuels; certain alcohol fuels, such as methanol and ethanol, are exempt from the tax. Public and private bus operators are largely exempt from existing tire, gasoline, and diesel fuel taxes. The Administration proposes to repeal these exemptions effective October 1, 1986. These changes are estimated to increase receipts to the trust fund by $600 million in 1987.

- Extension of Temporary Doubling of Cigarette Excise Taxes: The 1984 tax bill temporarily doubled the excise tax on packages of cigarettes to 16 cents effective January 1, 1983, through September 30, 1985. Recent legislation extended the temporary increase through March 14, 1986; it seems certain that Congress will extend the tax once again and perhaps make it permanent. The Administration proposes permanent extension of this tax, estimated to increase receipts $300 million in FY86, and $1.7 billion in each subsequent year.

- Inland Waterways Trust Fund: Under current law a diesel fuel tax of 10 cents per gallon is levied on commercial users of the inland waterways and deposited in the inland waterways trust fund. The Administration proposes to double the existing tax over 10 years, beginning in 1988. This proposal is included in legislation pending in Congress and is estimated to increase receipts by small amounts in the initial years.

- Increase in the District of Columbia (D.C.) Employer Contribution to Civil Service Retirement (CSR): The D.C. Government and its employees each contribute seven percent of wages and salaries to CSR. Beginning in 1987, the Administration proposes to increase the D.C. Government employer contribution as necessary to cover

the full cost of the program, when combined with the higher employee contributions and benefit reductions being proposed.

- Petroleum Overcharge Restitution Funds: The receipts estimates reflect revenues from the resolution of cases involving petroleum pricing and allocation violations under the Emergency Petroleum Allocation Act of 1973, in instances where the overcharged customers cannot be identified and repaid. The Administration intends to propose legislation to provide guidance to the courts where appropriate in other cases, which is estimated to result in additional receipts of $1.0 billion in 1987.

- Nuclear Regulatory Commission (NRC) User Fees: The Administration is proposing that the NRC impose a fee of $500 per million watts of rated thermal capacity on all operating nuclear power plants, in partial recovery of NRC costs for regulating nuclear power plants. It is estimated that this fee will increase receipts $200 million annually, beginning in 1987.

CREDIT BUDGET

The Administration's FY87 budget will slash nearly all direct loan programs of the federal government, from $53 billion in FY85 to $31 billion in FY87, and guaranteed loan commitments from $94 billion in FY86 to $80 billion in FY87. Among the loan programs to be cut are the direct loan transactions of the Federal Housing Administration (FHA), the rehabilitation loan fund, the Export Import Bank, the Community Development Block Grant program, the Farmers Home Administration, the Economic Development Administration and all Small Business Administration (SBA) loans.

All of the SBA credit programs -- both direct and guaranteed loan programs -- would be terminated in FY87. The existing loan portfolio would be transferred to Treasury for servicing liquidation and the sale of loan assets to private investors. Minority programs and any remaining functions would be consolidated into the Commerce Department.

For the first time, the majority of all loan obligations would be subject to limitations by the House and Senate Appropriations Committees. Gramm-Rudman-Hollings requires that all allocations to the Appropriations Committees and their subcommittees under the budget resolution include all loan and loan guarantee commitments.

The Administration also proposes some other credit restrictions. For example, fees would be imposed on the beneficiaries of Veterans Administration loans and guarantees, various rural and agricultural loans, and FHA loans. In addition, fees will be phased in on the activities of Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, and the Federal Home Loan Banks, in the

hope that these agencies will repeal their ties to the federal government and compete in the private marketplace. The Administration is pursuing this policy to eliminate the interest rate advantage their securities enjoy in competition with private bonds. Finally, some of the government's loan portfolio will be sold to the private sector in the hope that the private sector will have a better collection record for development loans.

Table 1

ECONOMIC PROJECTIONS FOR 1985-1990

Calendar Year	Real GNP*	Consumer Price Index*
	(Percent Change)	
1985	2.3	3.5
1986	3.4	3.5
1987	4.0	4.1
1988	4.0	3.7
1989	3.9	3.3
1990	3.6	2.8

	Average Civilian Unemployment	Average Treasury Note
	(Percent Change)	
1985	7.1	10.6
1986	6.7	8.9
1987	6.5	8.5
1988	6.3	7.3
1989	6.1	5.5
1990	5.8	4.4

*These percentages represent year over year changes. 1985 figures are estimates based on best available statistics for that year.

Source: OMB, FY87 Budget, pp. 2-24, 7-25.

Table 2
FEDERAL GRANTS-IN-AID
(dollars in billions)

Fiscal Year	Grants to State & Local Govt. Excluding Payments to Individuals	Grants As Percentage of Total Federal Outlays	Total Grants Including Payments to Individuals	
			O	BA
1980	59.9	10.1	91.5	105.0
1981	57.8	8.5	94.8	120.0
1985	57.8	6.1	105.9	114.0
1986	58.4	5.9	108.8	105.2
1987	50.6	5.1	99.1	89.1

Source: U.S. Budget Special Analysis H-21

AGING

The Administration's FY87 budget significantly reduces a number of programs which benefit the elderly, two-thirds of whom live in urbanized areas; actions include the proposed termination of Section 202 elderly housing, the reduction of benefits with an increase in out-of-pocket costs for Medicare and cuts in Medicaid.

The budget request of $689 million for the Administration on Aging (AoA) represents a freeze in nutrition and support services at FY85 levels and a 50 percent reduction of the Title IV Training and Research program. The FY87 budget for AoA represents a slight increase over the FY86 funding levels (following a $30 million cut under the Gramm-Rudman-Hollings Act). But, it continues a trend, begun in FY82, of requesting less federal funding for nutrition and support services despite increased numbers of older Americans and inflation. These cuts in Older Americans Act programs become even more critical when combined with proposed budget reductions in other programs affecting the elderly, such as housing, food stamps, health, Community Development Block Grants, General Revenue Sharing, Social Services Block Grant, transportation and other programs that affect the urban elderly. (Other sections in this document describe these programs in greater detail.)

OLDER AMERICANS ACT

The FY87 budget requests $669 million, the same as in FY85, for the Title III Grants to States providing nutrition and support services for persons aged 60 and older.

- Support Services and Senior Centers: The FY87 budget of $265 million freezes funds at the FY85 level for a wide range of community support services. These services assist an estimated 9.3 million older persons, half of whom are low income, in their efforts to remain independent and in their own home.

- Nutrition: The FY87 budget maintains at FY85 levels two elderly nutrition programs: congregate ($336 million) and home-delivered meals ($68 million). The budget assumes that increased contributions from elderly participants (projected at $157 million) and other administrative changes will result in 223 million meals served annually.

- Research, Training, and Discretionary Program: The FY87 budget request of $12.5 million represents a 50 percent reduction from FY86 levels for the Title IV consolidated research, training and discretionary program. The

Administration will be seeking a rescission of $11.4 million for FY86 funding for this program. Congress has rejected earlier Administration efforts to nearly eliminate this program, authorized at $31 million for FY87.

OLDER WORKERS

The Administration's FY87 budget requests $326 million, a freeze at the FY85 level, for the Senior Community Services Employment Program. This program, authorized by Title V of the Older Americans Act and administered by the Department of Labor through state governments (22 percent of funds) and eight national contractors provides 63,800 part-time work opportunities at minimum wage to unemployed low-income persons aged 55 and older.

OLDER VOLUNTEERS

The Administration's FY87 budget request of $103.8 million essentially freezes at the FY85 program levels three volunteer programs administered by ACTION.

- Retired Senior Volunteer Program ($29.6 million) provides community volunteer opportunities to nearly 378,500 older citizens in community services, such as health, education, troubled youth, refugee assistance and crime prevention.

- Senior Companion ($18 million) supports nearly 6,200 low-income elderly in voluntary efforts to provide long term care to approximately 22,000 frail and elderly persons.

- Foster Grandparents ($56 million) provides nearly 18,775 low-income elderly with volunteer activities to provide companionship and guidance to approximately 66,000 mentally, physically or emotionally handicapped children with emphasis on preventing institutionalization and/or returning children to communities.

ELDERLY HOUSING

The Administration's FY87 budget of $30 million represents a proposed termination for new projects funded by the Section 202 Loan Program providing housing for the elderly and handicapped. Last year, Congress rejected the Administration's proposed two year moratorium on the only remaining federal program funding new housing production, and appropriated $631 million to support 12,000 units. The Administration proposes a rescission of $549.3 million for FY86, in addition to the $27.1 million reductions required by the Gramm-Rudman-Hollings Act, and reduce to $54.6 million funds to support amendments on already approved projects.

This program provides low interest, long term loans to non-profit sponsors (i.e., churches and civic organizations) for new construction, rehabilitation or alteration of rental housing for the elderly and/or handicapped. (See the Community Development and Housing section of this document for additional housing program details.)

HEALTH

The Administration's FY87 budget proposes a number of changes in health care programs that affect the elderly. The Health section of this document addresses many of these. These are crucial since: 1) the elderly represent a significantly high proportion of the participants in many of these health programs (29 million older persons in Medicare, 13.3 million in Medicaid); 2) the elderly, particularly those aged 85 and above who generally require more health care, represent the fastest growing segment of the population; and 3) the elderly generally have fixed and limited income (in 1985, 12.4 percent or 3.7 million persons aged 65 and older lived in poverty, with an additional 8.8 percent "near poor.")

The elderly will have to absorb much of the Administration's proposed $55 billion cut in Medicare over the next five years. In FY87 the elderly will have higher "out-of-pocket" costs as a result of: increased Part B premiums ($725 million); a delay in eligibility for coverage ($265 million); required co-payments for home health services ($100 million); and an increase in the annual deductible ($310 million).

ADMINISTRATION ON AGING
Budget Authority
(dollars in millions)

	FY81	FY85	FY86	FY86 LESS GRAMM-RUDMAN HOLLINGS CUT	PROPOSED FY87
Title III					
Grants to States					
State Agency Activities/a	23	---	---	---	---
Support Services and Centers	252	265	265	254	265
Nutrition					
Congregate	295	336	336	321	336
Home Delivered	55	68	68	68	68
Title IV					
Research, Training and Discretionary Projects	40.5	25.0	25.0	24.0	12.5
Indians	5.7	7.5	7.5	7.2	7.5
Federal Council on Aging	0.5	0.2	0.2	0.2	0.2
National Clearinghouse/b	1.8	---	---	---	---
AoA Net Total Titles III & IV/c	674.0	702.0	702.0	672.0	689.0
Title V					
Older Workers/d	227.0	326.0	326.0	312.0	326.0

a In FY85, State agency activities funding was consolidated into Title III support services and nutrition; up to 5 percent of the state's Title III funds may be used for administrative expenses, states may transfer up to 30% among Title III programs.

b The National Clearinghouse on Aging was eliminated in FY82.

c Some discrepancies in figures occur due to rounding and consolidation of state administered funds.

d The Older Worker program is administered by the Department of Labor.

Source: U.S. FY87 Budget, pp. I-K48, II-35, I-P4; and D/HHS press release 2/5/86 p. 72-73.

ARTS AND HUMANITIES

NATIONAL ENDOWMENT FOR THE ARTS

The FY87 Administration budget request for the National Endowment for the Arts (NEA) is $144.9 million. The request is $20.7 million, or 13 percent, less than the funds appropriated by Congress in FY86.

The Administration's request of $103 million for program funds is $18 million less than the FY86 Congressional appropriations of $121 million. Even with Gramm-Rudman-Hollings cuts, these programs were still funded at a substantially higher level than the Administration has requested for the coming year. This will mean that fewer and possibly smaller grants will be available to cities. Examples of programs in the NEA that have been of special interest and support to cities are the Design Arts Program, the Visual Arts Program, and the Test Program of Support for Local Arts Agencies.

NATIONAL ENDOWMENT FOR THE HUMANITIES

The National Endowment for the Humanities (NEH) supports research, scholarship, education, and general audience programs in the humanities. The Administration's FY87 budget request for the NEH is $126.4 million. The budget request is $12.2 million, or 9 percent, less than the Congressional FY86 appropriation of $138.6 million. This means that, in addition to the 4.3 percent cut of Gramm-Rudman-Hollings, NEH programs would sustain an additional drop in their programs if the Administration's request were adopted.

NEH programs that affect cities and other local governments are primarily located in the regular program funds of the NEH, including such areas of importance to cities as humanities instruction in elementary and secondary schools; projects and humanities programs for nontraditional learners; basic research on the humanities in educational institutions, many of which are in cities; and humanities projects in museums, historical organizations, and libraries. The Congressional appropriation for these regular program areas for FY86 was $96.038 million; after Gramm-Rudman-Hollings cuts, this was $91.9 million, or a decrease of $4.1 million. The proposed Administration budget is a further decrease on top of Gramm-Rudman-Hollings, down to $83.14 million, or a total decrease from Congress' initial funding of the program in FY86 of 13 percent.

PROGRAM BUDGET AUTHORITY
(dollars in millions)

	FY81	FY85	FY86	FY86 LESS GRAMM-RUDMAN-HOLLINGS CUTS	PROPOSED FY87
NEA	158.6	163.6	165.6	158.5	144.9
NEH	151.0	140.0	138.6	132.6	126.4

NEA Sources: For FY81 data, NEA; for FY85-FY86 data, Congressional Arts Caucus, Arts Updates, Jan. 1985, Jan. 1986; for proposed Administration budget FY87, Appendix to the FY87 Budget, pp. I-Z73-4.

NEH Sources: Office of Public Affairs, NEH Release, Feb. 4, 1985, Feb. 5, 1986; Congressional Arts Caucus, Arts Updates, Feb. 5, 1986; and Administration's Budget FY87, Appendix to Budget, pp. I-Z75-6.

INSTITUTE OF MUSEUM SERVICES

The basic mission of the Institute of Museum Services (IMS) when it was established was to assist museums of all sizes and disciplines in their effort to maintain, increase, and improve their services to the public. In its FY83-86 budget requests, the Administration has proposed either elimination (FY83) or large reductions (FY84-86) of funding for the IMS; in each instance, the Congress voted a substantial increase. In FY86, the Administration requested only $292,000 for the IMS and provided no funds for grants to museums. The $292,000 was to be for the support of administrative activities associated with management of grants made in the previous year. For FY86, the Congress voted an appropriation of $21.4 million for the IMS, which became $20.5 million after Gramm-Rudman-Hollings cuts.

For FY87, the Administration has made a total budget request of $330,000, with no funds for grants to museums, only funding of administrative activities associated with management of grants made in previous years.

COMMUNITY DEVELOPMENT & HOUSING

COMMUNITY DEVELOPMENT

The proposed FY87 Department of Housing and Urban Development (HUD) budget would severely cut the Community Development Block Grant (CDBG) program and eliminate the Urban Development Action Grant (UDAG). The budget proposal effectively reduces CDBG funding to 32 percent of the FY85 level. In addition, the Administration will propose to reduce funding to many distressed communities and to change the current 70/30 percent entitlement/nonentitlement funding split to 65/35. The budget proposes termination of the UDAG program and a $206.4 million rescission in the program's FY86 funding. Slated for termination and reduced FY86 funding are the Section 108 Loan Guarantee program and the Section 312 program.

According to the budget, once tax reform legislation has been enacted, the Administration is planning to repropose an enterprise zone program that would provide tax incentives for redevelopment of economically distressed areas.

Community Development Block Grant

The FY87 budget proposes $2.125 billion for the Community Development Block Grant (CDBG) appropriation. The spending level will total $2.675 billion when the $500 million deferral from FY86 is included. In FY86, the $134.4 million sequestered by Gramm-Rudman-Hollings and the $500 million proposed deferral reflects a 32 percent reduction from the FY85 appropriation. The Administration will propose legislation to change CDBG funding; the net effect of this proposal will be to reduce the amount of funding to many communities.

After deducting $47 million for the Secretary's Discretionary Fund the balance of CDBG funds is presently split on a 70/30 percent basis between entitlement and nonentitlement categories, respectively. The FY87 budget proposes to alter the current 70/30 percent split to 65/35 to allow states to provide assistance to units of general local government to undertake more of the community development activities currently funded by the Farmers Home Administration. This further dilutes the funding available to CDBG recipients.

Urban Development Action Grants

The FY87 budget proposes termination of the Urban Development Action Grant (UDAG) program and legislation to repeal the program authorization. In

addition, an estimated $206.4 million of what remains in this year's FY86 appropriation of $330 million, and all unused balances from prior year appropriations, are proposed for rescission -- beyond the $14.2 million sequestered under Gramm-Rudman-Hollings.

Section 108 Loan Guarantees

The Administration again proposes to eliminate Section 108 in FY87. In FY86 the Congress enacted a $222.5 million limitation on the amount of loan guarantee commitments. In addition to the $9.6 million sequestered, the Administration also proposes a rescission of $162.9 million which will further reduce the 1986 limitation on new commitments to $50 million.

Urban Homesteading

The budget for FY87 proposes an appropriation of $12 million which is a slight increase in the FY86 amount remaining after sequestration of $11.4 million.

Section 312

The FY87 budget proposes to terminate the Section 312 program during 1986 and to reduce the 1986 loan limitation to $11 million. This activity will be funded from loan repayments and other program income. The $11 million will enable approval of loans in the pipeline at the time of the budget decision to terminate the program.

Policy Development and Research

The Administration proposes a $17.9 million appropriation for this program in FY87. This is a $2 million increase over the FY86 appropriation. The sequestration amount is $0.7 million, leaving a program level of $16.2 million for FY86.

Fair Housing

The budget contains a $5 million appropriation in FY87 for the Fair Housing Assistance Program (FHAP) and also requests a $7 million appropriation for the new "Fair Housing Initiatives Program" (FHIP). If authorizing legislation for the new program is not enacted by January 1, 1987, the Budget proposes that the FHAP funding level be $6.7 million. For the existing FHAP program, the sequestration amount of $0.3 million leaves $6.3 million for 1986.

Housing Counseling

The budget proposes no appropriation in FY87 and also proposes a rescission of the FY86 appropriation. The Congress originally appropriated $3.5

million, less the sequestered amount of $0.2 million. The rescission totals $3.3 million.

Neighborhood Reinvestment Corporation

The FY87 budget proposes $15.3 million for the Neighborhood Reinvestment Corporation (NRC). This reflects a reduction from the $17.7 million appropriated in FY86.

COMMUNITY DEVELOPMENT PROGRAMS BUDGET AUTHORITY
(dollars in millions)

	FY81	FY85	FY86	FY86 LESS GRAMM-RUDMAN-HOLLINGS CUT	FY86 PROPOSED DEFERRALS	PROPOSED FY87
CDBG Appropriations	$3,694.6	$3,472.0	$3,125.0	$ 134.5	$500.0	$2,125.0[c]
Section 108 Loan Authority Available	300.0	225.0	222.5	9.6	162.9[a]	----
UDAG Appropriations	675.0	440.0	330.0	$ 14.2	$206.4[b]	----
Urban Homesteading Properties Conveyed:						
Number	1,105	545	902	----	----	800
Amount	$ 10.6	$ 9.3	$ 13.1	----	----	$ 12.0
Appropriations	----	$ 12.0	11.9	0.5	----	12.0
Section 312						
Appropriations	$ 5.6	----	----	----	----	----
Loan Reservations	$ 84.5	$ 75.0	$ 11.0	----	----	----

a $162.9 is proposed as a rescission not a deferral.

b $206.4 is proposed as a rescission not a deferral.

c Spending level in FY87 will be $2.675 when the $500 deferral is included.

Source: FY87 Budget, U.S. Department of Housing and Urban Development Summary. February 1986.

HOUSING

The Administration's budget for assisted housing proposes the deferral and rescission of funds appropriated for FY86, and no new funding for FY87. Specifically, the budget seeks to defer $2.3 billion of FY86 appropriations and rescind another $4.4 billion. An additional $428.5 million will be sequestered for FY86 under Gramm-Rudman-Hollings.

In FY86, the budget proposes to fund 66,714 Section 8 unit reservations; 50,000 incremental vouchers; 3,500 vouchers for opt-outs and public housing demolition; 9,700 project-based reservations; and 3,514 unit reservations of Section 8/202, Section 8 existing, and Section 8 Moderate Rehabilitation reservations.

In FY87, the budget will fund assisted housing with the deferred budget FY86 authority of $2.3 billion; the funds will be used to support 62,500 units of which 53,500 will be voucher units. Of the 53,500 vouchers, 50,000 are incremental units and 3,500 are for voucher opt-outs and public housing demolition. HUD will assist 4.2 million households in FY87, which is only slightly more than the 4.1 million households assisted in each of the last two fiscal years.

Additional highlights of the FY87 budget proposals in housing include:

- 50,000 new incremental voucher units to be provided in each year from 1987 through 1991. The vouchers would be split evenly between urban and rural areas. No funding is sought for moderate rehabilitation, Section 8 Existing Certificates, and Section 202 housing in FY87.

- Termination of the Rental Housing Development Grant Program (HoDAG).

- A change in the method of financing Public and Indian Housing modernization and development is proposed.

- Public Housing Operating subsidies are frozen.

- FHA-insured mortgages are targeted to families with annual incomes below $40,000.

- Funds for the FY86 Rental Rehabilitation Grant program are proposed for rescission, and no funds are sought for FY87.

The budget also proposes a number of legislative and regulatory changes which will reduce program costs, including a one-year freeze of the fair market rents in FY87 at the FY86 levels for both Section 8 and the Housing Voucher Payment Standards. There will be no annual adjustment in the contract rent for Section 8 certificates and moderate rehabilitation units. The Administration also proposes the adoption of appropriation language which would automatically rescind all deobligated Public Housing and Section 8 balances for FY87. HUD assumes deobligations of $537.5 million in FY86 and an additional $264.4 million in FY87.

Public Housing

The budget proposes to rescind the FY86 appropriations for public housing from 5,000 to 350 units and from 2,000 units to none for Indian housing. No new development units are proposed for Public and Indian housing in FY87. A partial 2-year moratorium in Public and Indian housing modernization is also proposed. Accordingly, FY86 modernization funding is reduced from $1.5 billion to $458 million in budget authority, of which $225 million is to be used for capital costs for emergency requirements. HUD also intends, through legislation, to change the financing of Public and Indian housing modernization from the long-term amortization of debt to direct grants to Public Housing Agencies (PHAs) and Indian Housing Authorities (IHAs). The budget proposes $225 million in direct grants for the modernization program in FY87. The FY87 budget also proposes an appropriation of $1.175 billion for public housing operating subsidies -- in effect, freezing the program at the FY86 level.

Section 202 Housing for the Elderly and Handicapped

The Administration proposes no new funding for this program in FY87 and a rescission of $549.3 million in FY86. (See section on Aging for details.)

Rental Rehabilitation Grants

The budget proposes to eliminate the Rental Rehabilitation Grants program in 1987. In addition, the budget seeks to rescind $71.8 million of the $75 million appropriated for the program in FY86. Under Gramm-Rudman-Hollings, $3.2 million will be sequestered.

Housing Development Grants (HoDAG)

The budget proposes to terminate the Housing Development Grants (HoDAG) beginning in FY86. The program is to be reduced by $77 million. Of the $75 million appropriated in FY86 for the HoDAG program, $3.2 million will be

sequestered under Gramm-Rudman-Hollings and $71.8 million will be rescinded. In addition, an estimated $2 million in recaptured funds will also be rescinded.

Farmers Home Administration (FmHA)

The budget also proposes to eliminate the Farmers Home Administration (FmHA) housing assistance programs. In FY87, HUD would provide housing assistance for both rural and urban areas. The 50,000 incremental housing vouchers would be split evenly between metropolitan and non-metropolitan areas.

FEDERAL HOUSING PROGRAM LEVELS, FY81-FY86
(dollars in millions)

	FY81	FY85	FY86	FY86 LESS GRAMM-RUDMAN-HOLLINGS CUT[f]	FY86 PROPOSED DEFERRALS[e]	PROPOSED FY87
Section 8						
Section 202 Units	73,861[a]	12,639	12,000	----	100[e]	----
Moderate Rehabilitation Units	24,981	4,902	10,000	----	1,114[e]	----
Existing Housing Units	85,289	36,513	32,000	----	2,300[e]	----
Conversion/Prop. Disp./Loan Management Units	----	25,654	9,700	----	----	9,000
Housing Vouchers, Units	----	38,142	36,500	----	----	50,000
Public Housing Units	36,370	5,448	5,000	----	350	----
Public Housing Modernization Funds	$ 50	$ 1,676.4	$ 1.5	----	$ 458.3	$ 225.0
Public Housing Operating Subsidies	$ 1,200	$ 1,138	$1,210.6	$1,158.5	----	$1.171[d]
Housing Development Grants, Units	----	16,229	----	----	22	----
Rental Rehab Program, Units	----	40,000[c]	----	----	----	----
TOTAL UNIT RESERVATIONS, ALL PROGRAMS	220,501[b]	179,527[b]	105,200[b]			

[a] Includes new construction and substantial rehabilitation units.

[b] Does not include Indian Housing and voucher opt-outs and demolition.

[c] Estimate of number of units to be rehabilitated.

[d] Although $1.175 billion is requested in FY87, a carry over of $61.3 million will provide a program level of $1.232.8 billion.

[e] Net of proposed Gramm-Rudman-Hollings reductions and other rescissions, reductions and deferrals.

[f] The budget does not include the Gramm-Rudman-Hollings cuts in terms of units of housing.

Source: FY87 Budget, U.S. Department of Housing and Urban Development Summary.

DEFENSE

The Reagan Administration's proposed FY87 federal budget includes a dramatic increase in funding for the nation's defense programs. For FY87, the Administration has requested $320.3 billion in budget authority for the national defense category including $311.6 billion for the Department of Defense (DOD) and $8.2 billion for the atomic energy defense activities of the Department of Energy. The Administration's request represents a $34.2 billion increase in budget authority over the final FY86 level for defense or an increase of 8.2 percent after inflation.

The Administration has maintained that its FY87 budget request is only a three percent increase above inflation over FY86. The Administration, however, compares its $320.3 billion request to the $302.5 billion budget authority level passed in August, 1985 by Congress in the FY86 budget resolution. This level was lowered by Congress in December 1985 to $297.6 billion and reduced further by the automatic cuts resulting from the Gramm-Rudman-Hollings deficit reduction legislation. After these cuts, due to take effect on March 1, 1986, the final defense budget authority level for FY86 will be $286.1 billion.

Actual defense spending (outlays) would also grow under the Administration's proposal to the highest peacetime level (after accounting for inflation) since World War II. The Administration estimates that outlays will increase by $16.4 billion over FY86 to $282.2 billion in FY87. The Administration's five-year defense spending plan calls for over $1.6 trillion in national defense outlays for FY87-FY91. This compares to $1.3 trillion spent for national defense from FY81-FY86 (based on the Administration's estimate for FY86). During this period, defense outlays grew by over 40 percent after inflation, or an average annual growth rate of 5.8 percent after inflation. From FY87-FY91, defense outlays would grow by 16 percent after inflation or an average annual growth rate of three percent after inflation.

The national defense share of federal outlays has grown significantly since the Reagan Administration took office, rising from 22.7 percent in FY80 to 27.1 percent in FY86. Because of the Administration's plans for large decreases in domestic spending while continuing the defense buildup, by 1991 national defense will claim 32.6 percent of all federal outlays. The national defense share of the Gross National Product (GNP) has also risen since the beginning of the decade from five percent in FY80 to an estimated 6.2 percent share for FY87. Based on Administration projections of growth in the economy, defense spending as a share of GNP will remain between 6.1 percent and 6.2 percent through FY91.

The Administration's defense budget request for FY87 could add $20-$25 billion to the federal budget deficit. While defense spending is far from

the only element causing unprecedented deficits, it has clearly played a significant role. Contrary to DOD claims that the Department has contributed to deficit reduction, a February 1985 Congressional Budget Office analysis showed that defense spending changes (measured from the baseline revised in FY81) actually contributed $35 billion to the federal deficit for FY85.

The FY87 defense budget request includes several key features:

- The fastest growing major category of spending in the FY87 national defense budget is research and development (R&D). R&D funding is scheduled to rise from $33.7 billion in FY86 to $41.9 billion in FY87, an increase of 19.7 percent after inflation. This rapid growth is spurred, in part, by a 75 percent increase in funds for the Strategic Defense Initiative. Major R&D programs include the secret Stealth bomber and advanced air-launched cruise missile (funding data for these programs are classified), as well as the "Midgetman" to receive a 130 percent increase in funding. Anti-satellite weapons research spending rises by over 40 percent growth after inflation; strategic surveillance, warning, command and control, a major Defense Department priority, would rise by nearly 50 percent.

- Several large conventional weapons programs in the research and development stage show significant growth: the Air Force's advanced tactical fighter (nearly 90 percent growth after inflation); the Air Force's new C-17 cargo aircraft, soon to enter production (over 70 percent growth).

- In contrast to previous years, the Administration's budget request holds procurement spending at a steady level, providing no real growth after inflation. From FY81 to FY86, procurement spending nearly doubled after inflation. The FY87 procurement budget includes $1.4 billion for the Trident II missile and $350 billion for further studies of secure basing modes for the MX missile. The Administration plans to request production funds from Congress for an additional 48 MX missiles. Major conventional weapons programs in the FY87 defense budget include $3.5 billion for the F-16 fighter, $3.3 billion for the F-18 fighter, and $2.53 billion for the DDG-51 destroyer.

- As in the past, the Defense Department has chosen not to cancel any major weapons systems in order to meet budgetary constraints. Rather, DOD has decided to "stretch-out" the purchases of several weapons systems. By purchasing fewer weapons in FY87 than originally planned, DOD will "save" some money in FY87 at the expense of higher total lifetime costs of these weapons.

- The operations and maintenance portion of the defense budget would grow significantly in FY87, by 10.5 percent above inflation over FY86.

NATIONAL DEFENSE AND DEPARTMENT OF DEFENSE
BUDGET AUTHORITY AND OUTLAYS
(in billions of current dollars)

	FY81	FY82	FY83	FY84	FY85	FY86	FY87
051 (Defense Dept.)							
BA	176.0	211.6	238.7	258.2	286.8	278.4	311.6
Current $ Increase	35.3	35.6	27.1	19.5	28.6	-8.4	33.2
Real Growth %	12.7%	12.2%	8.8%	5.2%	7.2%	-5.9%	8.2%
Outlays	153.8	180.7	204.4	220.8	245.4	258.4	274.3
Current $ Increase	22.8	26.9	23.7	16.4	24.6	13.0	15.9
Real Growth %	4.6%	7.6%	8.6%	4.5%	7.3%	2.4%	2.4%
050 (National Defense)							
BA	180.0	216.5	245.0	265.2	294.7	286.1	320.3
Current $ Increase	36.1	36.5	28.5	20.2	29.5	-8.6	34.2
Real Growth %	12.7%	12.2%	9.2%	5.3%	7.3%	-5.9%	8.2%
Outlays	157.5	185.3	209.9	227.4	252.7	265.8	282.2
Current $ Increase	23.5	27.8	24.6	17.5	25.3	13.1	16.4
Real Growth %	4.8%	7.8%	8.8%	4.8%	7.3%	2.3%	2.4%

BA = Budget Authority

Sources: OMB Historical Tables, Budget of the United States Government, FY87
DOD Deflator Tables (February 3, 1986)

ECONOMIC & BUSINESS DEVELOPMENT

Once again, the Administration's proposals call for the elimination of the Economic Development Administration (EDA). In addition, the Administration proposes to rescind $101.3 million in FY86 funds and to defer $40 million to be used in FY86 and FY87 to close out EDA programs. The Administration proposes to terminate the Small Business Administration's (SBA) financial assistance programs and move its remaining functions to the Department of Commerce. The U.S. Travel and Tourism Administration is again proposed to be terminated.

The termination of SBA's financial assistance programs is part of the Administration's effort to reduce the federal government's role as a direct partner in business development. The Administration's business development program rests primarily on its efforts to stabilize financial markets, reduce inflation and interest rates and eliminate regulations.

ECONOMIC DEVELOPMENT ASSISTANCE PROGRAMS
Budget Authority
(dollars in millions)

	FY81	FY85	FY86	FY86 LESS GRAMM-RUDMAN HOLLINGS CUT	PROPOSED FY87
EDA					
Planning	23.9	27.0	27.0	25.7	-0-
Technical Assistance	26.3	8.0	8.0	7.9	-0-
Development Grants	273.3	149.0	120.5	115.3	-0-
Economic Adjustments	12.6	33.0	26.0	24.8	-0-
Direct Loan	54.1	-0-	-0-	-0-	-0-
Loan Guarantee Payments	32.0	-0-	-0-	-0-	-0-
Research & Evaluation	2.7	9.0	2.0	1.9	-0-
Total Obligations	424.9	226.0	183.5	175.6	-0-
SBA					
Direct Loans	314.0	173.3	101.9	96.6	-0-
Guaranteed Loans	3,060.7	2,932.5	3,380.0	3,234.7	-0-

Source: U.S. Budget, Appendix, FY81, FY85, FY86, FY87.

The Administration proposes to terminate the Economic Development Administration. In FY86, $183.5 million was appropriated for economic development assistance programs. The FY87 budget requests a rescission of $101.3 million to terminate EDA's assistance programs; a deferral of $40 million to close out EDA's economic development assistance programs; a $7.8 million reduction mandated by Gramm-Rudman-Hollings. This leaves $34 million in obligated economic development assistance programs.

INTERNATIONAL TRADE ADMINISTRATION

The International Trade Administration (ITA) of the Department of Commerce has responsibilities for trade development, international economic policy, trade administration and the U.S. and Foreign Commercial Service. Budget authority requested for ITA in FY87 is $179 million, down from $192 million in FY86 before Gramm-Rudman-Hollings and $183 after Gramm-Rudman-Hollings. The Administration proposes a rescission of $10.1 million for the Trade Adjustment Assistance (TAA) program which provides loans and guarantees to help firms adjust to import competition. The TAA program is proposed for elimination in FY87.

An increase of $4.5 million is requested in FY87 for trade administration (export and import enforcement programs) to meet new requirements of the Export Administration Amendment Act of 1985 and to monitor and enforce an increasing number of anti-dumping and countervailing duty cases.

MINORITY BUSINESS DEVELOPMENT AGENCY

The Administration proposes to consolidate the federal minority business assistance programs in the Minority Business Development Agency (MBDA) in FY87. Under the proposal, the Small Business Administration's minority business procurement assistance program, Section 8(a), would be transferred to MBDA. Resources needed to carry out this activity are not included in the proposed MBDA FY87 budget and are to be transmitted later this year but are estimated in the budget to be $11 million to carry out the program.

MBDA's current activities fall into three major categories: enterprise development (Minority Business Development Centers), resource development (public-private initiatives) and advocacy, research and information. In the proposed FY87 budget, the amounts proposed for each category--enterprise development ($36.6 million), resource development ($5.6 million) and advocacy ($3.1 million)--are approximately the same as the amounts available in FY86 after the Gramm-Rudman-Hollings cuts.

SMALL BUSINESS ADMINISTRATION

The Administration's FY87 budget proposes to transfer the Small Business Administration to the Commerce Department and to terminate some of SBA's programs. Under the proposal, SBA would remain a separate entity within Commerce, to be headed by a Presidentially-appointed administrator who would also serve as a Commerce undersecretary. SBA's advocacy and research program, procurement and technical assistance program, and the Service Corps of Retired Executives would be transferred to Commerce. SBA's minority small business 8(a) program would be merged into the Department's Minority Business Development Agency.

The Treasury Department would assume, service, and liquidate SBA's current loan portfolio. All of SBA's existing direct and guaranteed loan programs are proposed for termination including local 503 certified development corporations, Small Business Investment Companies (SBICs), and Minority Enterprise Investment Companies (MESBICs). In FY86 after Gramm-Rudman-Hollings, an estimated $96 million is available for direct loans and $3.2 billion in loan guarantees.

U.S. TRAVEL AND TOURISM ADMINISTRATION

In FY87, the Administration proposes to terminate the U.S. Travel and Tourism Administration within the Department of Commerce. This agency has responsibility for promoting international travel to the United States. In FY86, the agency received $12 million. The Administration requests $4 million in FY87 to close out the agency's domestic and overseas operations.

EDUCATION

The Administration is requesting $15.2 billion in FY87 budget authority for programs under the Department of Education. This is $3.3 billion under the FY86 presequestration appropriation level of $18.5 billion. Almost 80 percent of the loss is in four programs: Student Financial Assistance, with a proposed cut of $1.1 billion; Guaranteed Student Loans, with $1.0 billion less; Vocational and Adult Education, with a proposed cut of $428 million; and Education for the Handicapped, with $119 million less -- all as compared to their FY86 presequestration levels.

The Administration is again proposing tuition tax credits, vouchers for compensatory education and educational savings accounts.

COMPENSATORY EDUCATION

The FY87 request of $3.7 billion in budget authority for Compensatory Education is equal to the FY86 presequestration level.

A voucher system is recommended for these services through the Administration's proposed legislation, The Equity and Choice Act of 1985 (TEACH). Parents could elect to have their children receive compensatory services at either a private school or a public school other than the one to which the child is assigned (either in their own or another school district). Vouchers could be used only at non-profit (as defined by IRS) educational institutions that do not discriminate on the basis of race, color, or national origin.

TUITION TAX CREDITS

Again this year the Administration will propose legislation for a tuition tax credit of up to 50 percent for parents who choose to send their children to private elementary and secondary schools which are non-profit and do not discriminate on the basis of race, color, or national origin. The credit is intended for lower and middle income families, with full credit phased out for those families with an adjusted gross income over $40,000, and would not be available to those with an income of $60,000 or more. The maximum credit would be phased in, from $100 to $200 to $300, over a three year period.

BILINGUAL EDUCATION AND SPECIAL PROGRAMS

The FY87 request for $143 million in budget authority for Bilingual Education is equal to the FY86 presequestration and FY85 levels.

The FY87 request for $679 million in budget authority for Special Programs includes $75 million for teacher training, but this cannot be authorized without new legislation. The FY86 presequestration level for Special Programs was $705 million.

IMPACT AID

Impact Aid compensates public school systems for loss of property tax revenue due to the presence of federal facilities. In FY87, $548 million in budget authority is requested; the FY86 presequestration level was $693 million. Payment is requested in FY87 for "A" category children who live on federal property and have parents who work on federal property or are in the military. No request is made for the "B" children who have either, but not both, attributes because the Administration believes that the presence of these children imposes little or no burden on most districts.

EDUCATION FOR THE HANDICAPPED; VOCATIONAL AND ADULT EDUCATION

The Administration is requesting $1.3 billion in FY87 for Education for the Handicapped; this is $119 million under the FY86 presequestration level.

A large cut is proposed for Vocational and Adult Education, with $512 million in budget authority requested for FY87 as compared to the FY86 presequestration level of $940.8 million. The Administration is proposing to eliminate general support for vocational education, serving only special populations, such as the disadvantaged and the handicapped, in need of these services.

STUDENT FINANCIAL ASSISTANCE

The Administration is requesting $3.8 billion in budget authority in FY87 for Direct Student Assistance; this is $1.1 billion less than the FY86 presequestration level of $4.9 million. This proposed cut results in $600 million less proposed for campus-based aid and $337 million less for Pell Grants which assist needy undergraduate students.[1] For Guaranteed Student Loans, $2.3 billion is requested in budget authority for FY87 as compared to the $3.3 billion FY86 presequestration level.

EDUCATIONAL SAVINGS ACCOUNT

The Administration is proposing that families earning under $60,000 per year be allowed to save in special tax free accounts a maximum of $1,000 per child per year for future education expenses. This maximum amount will be reduced five cents for each dollar that the taxpayer's adjusted gross income

exceeds $40,000, up to the cutoff of $60,000. If enacted, the proposal is scheduled to become effective January 1, 1987 and result in lost tax revenues of $200 million in 1988 and $300 million in 1989.[2]

---

1 U.S. Department of Education, The Fiscal Year 1987 Budget, Summary and Background Information, Appendix B, page 9.

2 Ibid., p.38.

DEPARTMENT OF EDUCATION BUDGET AUTHORITY
FOR SELECTED PROGRAMS
(dollars in millions)

	FY81	FY85	FY86	FY86 LESS GRAMM-RUDMAN HOLLINGS CUT	FY86 RESCISSIONS	PROPOSED FY87
Compensatory Education for the Disadvantaged	3,112	3,696	3,696	3,537	7	3,688
Student Financial Assistance	3,802	5,160	4,887	4,676	456	3,813[a]
Guaranteed Student Loans	2,535	3,800	3,300	3,266	----	2,330[b]
Education for the Handicapped	1,025	1,321	1,411	1,350	44	1,303
Vocational and Adult Education	782	940	941	907	210	512
Special Programs[c]	614	758	705	675	38	604[d]
Impact Aid	662	695	693	663	----	548
Bilingual Education[c]	161	143	143	137	----	143

a Total request requires additional authorizing legislation and is proposed for later transmittal under proposed legislation.

b This amount excludes $1.1 billion proposed for transmittal under proposed legislation and $15.4 million to be cut under Gramm-Rudman-Hollings.

c These figures were obtained from the Department of Education Budget Service.

d This amount excludes $75 million for teacher training proposed for transmittal under proposed legislation.

Sources: U.S. Budget FY83, FY87.

EMPLOYMENT & TRAINING

The Administration's FY87 budget request would reduce the funding level for the Job Training Partnership Act (JTPA) program by more than half a billion dollars, from $3.387 billion in FY86 to $2.910 billion for FY87.

Most of that reduction would come from the Administration's proposal to cut by almost half the funding levels for the programs that are directly targeted to disadvantaged youth -- the Summer Youth Employment Program (SYEP) and the Job Corps. The Administration intends to begin now to reduce spending in FY86 budget authority for these programs by rescinding $208 million from the summer jobs program and $196 million from the Job Corps and then to maintain the lower levels for FY87. The Administration would seek to limit program activity to fewer geographic areas with significant economically disadvantaged youth populations. These cuts are in addition to amounts that will be taken under the Gramm-Rudman-Hollings budget reducing measure.

In other employment and training programs, the Administration would again seek to dismantle the Work Incentive (WIN) program for recipients of Aid to Families with Dependent Children (AFDC), cut the federal contribution to Vocational Education by half, and retire the Trade Adjustment Assistance (TAA) program for workers unemployed as a result of foreign imports.

The Community Service Employment Program (CSEP) for older workers, however, is unscathed in the Administration's budget proposal. The Administration's request at $326 million for FY87 would restore the amounts taken by Gramm-Rudman-Hollings.

The Administration is also requesting supplemental funding in FY86 for the dislocated worker program under JTPA, and for the first time intends to reserve for the Secretary of Labor the discretion in distributing the funds.

BASIC TRAINING PROGRAMS

The funding level proposed for JTPA's basic training component (Title IIA) for FY87, set at $1.820 billion, is little changed from the FY86 level. The Administration slightly raised the $1.783 billion level set by the Gramm-Rudman-Hollings cut.

YOUTH PROGRAMS

Funding for the Summer Youth Employment Program and Job Corps is drastically reduced in the Administration's budget proposal.

The Summer Youth Program, currently at $725 million for the summer of 1986, would be slashed to $428 million for the summer of 1987 and again for 1988. The Administration would achieve this by rescinding $208 million from the amount enacted for the summer of 1987, and then maintain that level for the 1988 summer. The Administration also intends to limit distribution of these funds so that fewer geographical areas with concentrations of poor and minority youth are recipients of this much smaller cache of funds. The Administration will also place greater emphasis on literacy training to accompany work experience in this program. This will further reduce the number of job slots available.

Participant capacity in the Job Corps program would be reduced from the current 40,500 youths to 22,000 youths by January 1, 1987 under the Administration's plan.

The Job Corps program provides intensive remedial education and vocational skills training to poor youths aged 16-21 in residential centers, many of whom are high school drop-outs and other disadvantaged youths from urban areas. The $196 million rescission request from the program's FY86 appropriation of $640 million would result in the closing of several Job Corps centers beginning in May 1986. The Administration's FY87 request for the program would mean a further slashing of the program to a level of $351 million.

The FY87 budget request continues to advocate a subminimum youth wage as a way to create more jobs for youth.

DISLOCATED WORKERS

The Administration proposes a 1986 supplemental appropriation of $74 million for the Secretary of Labor's discretionary portion of the JTPA (Title III) Dislocated Worker program. For the first time, the Administration would also give the Secretary the discretion to use the $25 million appropriated for the expired Trade Adjustment Assistance (TAA) program to assist displaced workers. For FY87 the Administration would maintain this $100 million level for discretionary use and does not seek financing for the formula portion of the dislocated worker program. The Administration maintains that the JTPA formula allocation of dislocated worker funds is not reflective of the need for special assistance to dislocated workers.

NATIONAL PROGRAMS

Programs for Native Americans, migrant and seasonal farmworkers and veterans, and for technical assistance, research, and pilots and demonstrations would be funded in FY87 at $210 million. Within this total, the Administration has requested an increase of $32 million for research and demonstrations to develop an understanding of solutions to employment problems faced by disadvantaged and minority youths, teen parents, high school dropouts, and other groups with significant barriers to employment.

THE PROGRAM YEAR

JTPA established a nine-month forward-funding cycle by creating a program year period which begins July 1 and ends June 30. The FY87 budget proposal for JTPA is for expenditures that will begin on July 1, 1987 and run through June 30, 1988. The requested rescissions are from program year 1986 which begins July 1, 1986 and ends June 30, 1987. The summer jobs program, however, operates on a 21-month forward-funding basis: the FY86 budget authority is for the summer of 1987 program and the FY87 proposed budget is for the 1988 summer program.

The figures discussed above, however, are in accordance with the fiscal year cycle rather than the program year cycle, since the JTPA budget request must be in line with the fiscal year used for all federal budget requests. The Administration's budget request, however, does recognize JTPA's program year cycle.

EMPLOYMENT AND TRAINING PROGRAM BUDGET AUTHORITY
(dollars in millions)

	FY81[a]	FY85	FY86	FY86 LESS GRAMM-RUDMAN HOLLINGS CUT	PROPOSED RESCISSIONS	PROPOSED FY87
Basic Training	$3,902	$1,886	$1,863	$1,783	0	$1,820
Summer Youth	----[b]	825	665	635	(208)[c]	428
Job Corps	561	617	640	612	(196)	352
Dislocated Workers	----	222	100	96	0	100
National Programs[d]	782	224	219	210	(12)	210
Public Service Employment	2,606	0	0	0	0	0
TOTAL	$7,851	$3,774	$3,487	$3,336	$(416)	$2,910

a Figures for FY81 represent spending authority under the Comprehensive Employment and Training Act (CETA).

b Funds authorized for the FY81 summer jobs program were included in the basic training grant and were not disaggregated.

c The proposed rescission of FY86 summer youth funds would impact the summer of 1987 program due to the forward funding nature of JTPA. Funds for this summer's program are taken from the FY85 appropriation.

d These figures include programs for Native Americans, migrant and seasonal farmworkers, and veterans, as well as funds for technical assistance, research, and pilots and demonstrations.

Sources: Budget of the U.S. Government, Fiscal Years 1983, 1987, U.S. Department of Labor, Office of the Budget.

ENERGY

The proposed FY87 budget for the Department of Energy (DOE) again calls for curtailment or sharp reductions in energy programs important to the cities. The overall DOE budget proposal for FY87 is $12.1 billion; that figure is $506 million less than the FY86 appropriation, but $128 million more than the FY86 budget after Gramm-Rudman-Hollings cuts. These cuts averaged five percent over all DOE programs. The budget proposal for defense production is up slightly, and the proposal for nuclear waste activities is 24 percent more than the FY86 appropriation, but all other programs are cut. The Administration proposes major initiatives to reduce the federal government's role in energy markets, including sale of the naval petroleum reserve, sale of the federal power marketing administrations, and a moratorium on further development of the Strategic Petroleum Reserve.

CONSERVATION

Energy conservation programs at DOE include energy conservation research and development (R&D), and state and local assistance, or conservation grants. The FY87 proposal in the area of energy conservation is $76.2 million, down from the $436.1 million FY86 appropriation.

The R&D program supports development of methods for more effective energy use in buildings, transportation and industrial processes. This program is cut in the FY87 proposal to $71.2 million, down from a FY86 appropriation of $179.3 million.

The conservation grants program provides funds to state and local government to undertake energy conservation measures, including weatherization of schools, hospitals, and homes of low-income families. The Administration again proposes to abolish this program, maintaining that the states can use funds expected to be made available to them by the federal government from settlement of oil pricing and allocation violations. Congress has rejected this approach.

ENERGY SUPPLY RESEARCH AND DEVELOPMENT

Cuts are proposed for FY87 in a range of energy production techniques that have applications in cities. Solar and other renewables is cut to $91.9 million, a 50 percent reduction from the $182.6 million FY86 appropriation. Geothermal is down 36 percent, from $28 million in FY86 to $17.9 million, and no funds are proposed for hydropower. Fossil energy R&D is cut by more than half, from the $359.9 million appropriation in FY86 to $150.1 million in the FY87 proposal.

MAJOR INITIATIVES

The Administration has proposed several major intiatives in the energy area to reduce the federal deficit and promote privatization of federal programs.

Strategic Petroleum Reserve

The FY87 budget request, in a repeat of FY86, proposes an indefinite moratorium on further development of the Strategic Petroleum Reserve (SPR). The Administration proposes to suspend oil fill activities in 1986, once the reserve contains 500 million barrels of crude oil. This amount equals about 120 days of net U.S. oil imports and about 300 days worth of imports from OPEC countries, and provides more protection against oil supply disruption than the original 750-million-barrel goal would have provided in 1975 when the SPR was established, the Administration maintains.

Naval Petroleum Reserves

DOE owns and operates two oil fields: Elk Hills, CA, and Teapot Dome, WY. These are designated as naval petroleum reserves (NPRs) to provide oil for the Navy in an emergency. For several years, NPR oil and gas has been sold on the open market; the strategic petroleum reserve has been relied on to meet emergency national needs. The Administration proposes to sell the NPRs to the highest bidder, at a price estimated at about $3.6 billion.

Power Marketing Administrations

DOE operates five power marketing administrations (PMAs): Alaska, Bonneville, Southeastern, Southwestern, and Western Area. The Administration proposes to sell these utility systems, noting that utilities are not normally a federal responsibility. The budget assumes that the Bonneville and Southwestern Power Administrations will be sold in 1988, with the others following in succeeding years, and that there will be an initial budget savings of $1.6 billion in 1988.

DEPARTMENT OF ENERGY BUDGET AUTHORITY
(dollars in millions)

	FY81[a]	FY85[b]	FY86[c]	FY86 LESS GRAMM-RUDMAN HOLLINGS CUT[c]	PROPOSED FY87[c]
Energy Research and Development	4,033	2,151	2,213	2,108	1,734
Fossil Energy	994	347	360	343	150
Solar and Other Renewables	1,048	212	183	174	92
Environmental Research	230	231	240	229	274
Magnetic Fusion	394	437	488	465	333
Nuclear Energy	1,051	416	396	377	333
Supporting Research and Technical Analysis	316	508	546	520	552
Conservation and State/Local Assistance	430	459	449	428	76
Defense	3,690	7,356	7,588	7,216	8,230
Other	4,304	4,366	2,356	2,220	2,060
TOTAL	12,457	14,332	12,606	11,972	12,100

[a] U.S. Department of Energy, Briefing Document, January 1982.

[b] Budget of the U.S. Government, FY86, Appendix, January 1985; U.S. Department of Energy, FY86 Budget Highlights, February 1985.

[c] Budget of the U.S. Government, FY87, Appendix, February 1986; U.S. Department of Energy, FY87 Budget Highlights, February 1986.

ENVIRONMENT

With the important exception of Superfund, budget proposals for urban environmental programs represent program cuts and eliminations which are significant and have been largely rejected by the Congress in previous years.

ENVIRONMENTAL PROTECTION AGENCY

The Environmental Protection Agency budget is composed of three major parts: the wastewater treatment construction grants program, the operating budget, and the Superfund hazardous waste clean-up program.

Wastewater Treatment

The Administration proposes a cut of 25 percent in the wastewater treatment construction grants program, from the $2.4 billion level it will support for FY86 following congressional reauthorization of the Clean Water Act to $1.8 billion in FY87. This would be followed by further cuts in FY88 and FY89 leading to zero funding in FY90. But in their Clean Water Act deliberations, the House and Senate have separately rejected this approach, supporting a level of $2.4 billion for FY87, and continuing construction funding through grants and loans until FY94.

Operating Budget

The EPA operating budget supports basic implementation of federal environmental programs and assistance. Overall, the operating budget is proposed for a 3.5 percent cut, from $1.426 billion to $1.376 billion. This comes on top of the 4.3 percent reduction to be implemented on March 1 through Gramm-Rudman-Hollings. Within this overall operating budget, state and local grants would decline by 4.4 percent from $282 million to $270 million, following a cut of 4.3 percent from the initial implementation of Gramm-Rudman-Hollings. Later this year the Administration will propose a state-run Pollution Control Block Grant for most of the separate air, water, hazardous waste and other environmental programs.

Superfund

Authorization for the Superfund program expired on September 30. The Administration supports a level of $861 million for FY86 when the program is reauthorized, and seeks an increase of 22 percent to $1.050 billion in FY87.

DEPARTMENT OF INTERIOR

Three programs within the National Park Service of the Department of Interior are of particular importance to cities -- the Urban Parks and Recreation Recovery Program (UPARR), Land and Water Conservation Fund State and Local Grants (LWCF) and Historic Preservation Grants. They have helped cities to revive existing recreation facilities, acquire new ones and save historic structures.

As has been its practice since 1981, the Administration proposes to eliminate funding for each of these efforts in FY87. In addition, it seeks to rescind large portions of FY86 funding for both LWCF and historic preservation, both of which will be reduced by 4.3 percent on March 1 via the Gramm-Rudman-Hollings cuts.

Summary

The Administration proposed FY87 budget presents an overall setback for the environment, both in actual numbers, and in the fact that it continues to propose policy directions strongly opposed by the Congress. Weakened funding threatens the ability of cities to meet federal environmental mandates. Implementation of across the board Gramm-Rudman-Hollings cuts of 25 percent would severely compound this difficulty.

URBAN ENVIRONMENT PROGRAMS BUDGET AUTHORITY
(dollars in millions)

	FY81	FY85	FY86	FY86 LESS GRAMM-RUDMAN HOLLINGS	PROPOSED RESCISSION	PROPOSED FY87
Environmental Protection Agency						
EPA Operating Budget	1,353.0	1,348.0	1,490.0	1,425.9	----	$1,376.0
State & Local Grants	272.0	256.0	295.0	282.3	----	270.0
Wastewater Treatment Construction Grants	3,300.0[a]	2,400.0	600.0[c]	574.2	----	1,800.0[d]
Superfund	75.0	620.0	900.0[d]	861.3	----	1,050.0[d]
Department of Interior						
Urban Parks	20.0[b]	----	----	----	----	----
Land & Water Conservation Fund State & Local Grants	159.0	100.2	50.0	47.9	35.9	----
Historic Preservation	26.0	25.5	24.8	23.7	18.5	----

a Original FY81 appropriation for wastewater was $3.3 billion. The Administration proposed and Congress accepted a rescission of $1.7 billion.

b Original appropriation for urban parks was $20 million. The Administration proposed and Congress accepted a rescission of $19 million.

c The Continuing Resolution appropriates $2.4 billion for this program but only $600 million was made available pending reauthorization of the Clean Water Act.

d Figure to be supported by Administration when Superfund program is reauthorized.

Source: U.S. Budget, Appendix FY83, pp. IM-36-40.
U.S. Budget, Appendix FY87, pp. I-N52-53, II-39.
EPA, Summary of Budget, 1986, p. 8-74.

FISCAL ASSISTANCE

The Administration proposes to terminate the general revenue sharing program at the end of FY86, when the authorization for the program expires. The program has been funded at a level of $4.6 billion since FY81, though in FY86, only $4.2 billion was appropriated.

Other reductions in FY86 funding include a mandated cut under Gramm-Rudman-Hollings of $190 million (4.3 percent) and a proposed rescission of the entire FY86 fourth quarter payment, which is slated to be paid to cities in October 1986. The proposed rescission would cut an additional $700 million from the program's funding level. However, if Congress does not approve the rescission, the funds legally must be spent.

With all three reductions -- the appropriations cut, Gramm-Rudman-Hollings reduction and rescission -- the general revenue sharing program would receive only $3.4 billion in FY86, a 26 percent reduction from FY85. The President proposes zero funding in FY87.

The Administration also proposes to cut various payments-in-lieu of taxes programs, which compensate state and local governments for some of the costs associated with federal land holdings. The cut is the result of plans to subtract federal costs of managing federal land holdings for timber, mineral and other receipts, before sharing net receipts with state and local governments. The cut is $159 million in Forest Service and mineral leasing receipts to state and local governments.

Another small Interior Department payment-in-lieu of taxes program to local governments would increase slightly from $100 to $105 million.

The federal payment to the District of Columbia would increase slightly from $350 to $360 million. However, some of this increase is offset by a proposal to require higher D.C. contributions to the Civil Service Retirement program. Payments to the Territories would decline slightly.

Once again, there is no initiative in the budget for any new fiscal assistance program to cities to help them cope with chronic unemployment or poverty, nor for any special program of infrastructure assistance.

FOOD STAMPS & NUTRITION

Despite numerous studies which show that hunger and malnutrition continue to be major problems in America, especially in the nation's larger cities, despite the increase in demand for emergency food assistance by families with children and despite a slowing in the rate of decrease in infant mortality, the Administration's FY87 budget calls for significant cuts in most major food and nutrition programs. The food stamp program, child nutrition programs and the Supplemental Feeding Program for Women, Infants and Children are exempt from the 4.3 percent reduction in FY86 funding due to Gramm-Rudman-Hollings.

FOOD STAMPS

The President's FY87 request of $11.5 billion would reduce the budget level for the food stamp program by $244 million from the level appropriated by Congress and reduced by Gramm-Rudman-Hollings for FY86. The Administration bases this reduction on a lower projected unemployment rate (6.5 percent for 1987) and proposed changes in the law which would result in cuts of over $350 million, including the repeal of selected provisions of the Food Security Act of 1985 which expand eligibility under the program beginning May 1, 1986. In addition to the reduction of participant levels through the reduction in the unemployment rate, the Administration will propose legislation which mandates that states implement a universal work requirement for employable applicants and recipients. This is expected to reduce funding by an estimated $66 million because many would either find paid employment or drop out of the program because of the work requirement.

Though food stamp benefit funds are exempt from the effects of Gramm-Rudman-Hollings, $2.6 million in FY86 administrative funding will be sequestered. Nearly half of the program's administrative costs are currently borne by state and local governments.

CHILD NUTRITION PROGRAMS

As last year, the Administration proposes to reduce the amount of federal spending for child nutrition programs by eliminating subsidies for meals served to children from families with incomes above 185 percent of the poverty level, currently $20,400 for a family of four. The Administration estimates that this proposal alone would result in a cut of $395 million from the FY86 funding level. In addition to eliminating meals for those children above 185 percent of the poverty level, however, the American School Food Service Association has estimated that the proposed means test would result in over 10,000 schools discontinuing their school lunch programs entirely, thus closing out many children who would be eligible for the subsidy. For the Child Care Feeding program, the means test would result in a $145 million cut from the FY86 levels, a 30 percent reduction.

The President's budget would also totally eliminate funding for the Nutrition Education and Training program (currently $5 million) and would reduce funding for the Special Milk program from $11.7 million to $1.4 million by eliminating participation of those whose family income exceeds 130 percent of the poverty level.

SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS AND CHILDREN (WIC)

The President's budget proposal would increase the funding level for WIC by $56 million, for a FY87 total of $1.62 billion. The Administration projects this level of funding is needed to maintain the program at current participant levels, about three million individuals per month.

NUTRITION ASSISTANCE FOR PUERTO RICO

On July 1, 1982, the food stamp program was replaced in Puerto Rico with a nutrition assistance block grant, now authorized by the farm bill. Though the Congress authorized a FY87 increase in Puerto Rico's block grant to $853 million, the Administration proposes a FY87 funding level equal to the original 1982 amount, $825 million.

TEMPORARY EMERGENCY FOOD ASSISTANCE

As in last year's budget request, the Administration seeks to eliminate the $50 million Temporary Emergency Food Assistance program, which provides funds to states in meeting the costs associated with distributing donated federal commodities to eligible schools and charitable institutions and organizations.

SELECTED FOOD ASSISTANCE PROGRAMS BUDGET AUTHORITY
(dollars in millions)

	FY81	FY85	FY86*	PROPOSED FY87
Food Stamps	10,667	11,752	11,762	11,519
Child Nutrition				
School Lunch and Special Assistance	2,398	2,660	2,641	2,401
School Breakfast	323	407	410	414
Summer Feeding	149	115	122	112
Child Care Feeding	295	435	484	338
Nutrition Ed & Training	17	5	5	-0-
Special Milk Program	119	18	11	1
WIC	975	1,500	1,561	1,617
Nutrition Assistance for Puerto Rico	-0-	825	820	825

* Represents total including FY86 Gramm-Rudman-Hollings cut.

Sources: Appendix to the Budget for 1987, pp. I-E105-109.

U.S. Department of Agriculture 1987 Budget Summary, p. 42.

HEALTH

The President's budget for FY87 requests large cuts in federal health programs important to cities, with Medicare and Medicaid among those hit hardest. Significant reductions are proposed also for FY86 through rescissions that compound the effects of automatic cuts triggered as a result of Gramm-Rudman-Hollings legislation.

MEDICARE

Federal spending on Medicare, the health insurance program for the elderly, poor and disabled, is to be slashed by more than $54 billion in the five year period FY87 to 1991. This includes Administration projections to collect $17 billion in new revenues primarily through increases in premiums and deductibles charged to beneficiaries. The federal government would spend $70.2 billion on Medicare in FY87, a cut of $4.7 billion from current spending levels.

Study of the feasibility of a new initiative, catastrophic coverage, is proposed, but no funds are budgeted at this time. Were the proposal to move forward, this feature would probably pay for in-hospital costs beyond the current 60 day annual limit after which co-payments are required.

MEDICAID

Medicaid, a federal-state program that provides health care to the poor, is to be cut $15.5 billion over the next five years through imposition of a cap on federal payments to the program. For FY87, this amounts to $23.7 billion, a cut of $1.3 billion below projected spending levels. Congress has rejected previous attempts by the Administration to put a ceiling on the federal share of the Medicaid program.

AIDS

Funding for AIDS in FY87 is to be cut $31 million below FY86 appropriations levels. The disease, virtually unknown before 1981, today has more than 16,000 cases reported, over half of which have resulted in death. In addition, the Administration proposes to rescind $41 million from current Congressionally-approved AIDS efforts, eliminating a demonstration program set for four cities with high disease rates (Miami, Los Angeles, New York and

San Francisco) and cutting alternate test sites, a toll-free hotline, and research at the National Institutes of Health. The President will ask Congress to permit HHS to redirect up to one percent of HHS "lower priority" programs to AIDS research and control; the amount of this redirected funding cannot be determined at this time.

HEALTH BLOCK GRANTS

In FY87, funding levels for three of four health block grants would return to general FY85 levels following the FY86 4.3 percent Gramm-Rudman-Hollings reduction. The fourth block grant, Primary Care or Community Health Centers, is limited to a one percent FY86 Gramm-Rudman-Hollings cut, but in addition is slated for a rescission of more than five percent. Further, the President's budget proposes to incorporate into the Primary Care block grant current categorical programs for family planning, migrant health and black lung. Combined funding for the four programs in FY87 would be $26 million below FY86 appropriations. The Administration has tried several times to combine these four programs and has met with Congressional opposition.

RESCISSIONS

The Administration calls for over $1.3 billion in across-the-board rescissions in FY86, affecting agencies such as the National Institutes of Health, Health Care Financing Administration and Health Resources Administration. Rescissions in the Indian Health Service include those affecting "low priority federal programs including urban health." A $40 million rescission in the Alcohol, Drug Abuse and Mental Health Administration reflects the further distancing of the federal government from mental health services responsibility. Rescissions in the Centers for Disease Control totalling $34 billion will reduce funds appropriated for work on TB, health promotion and AIDS programs among others.

SELECTED HEALTH PROGRAMS BUDGET AUTHORITY
(dollars in millions)

	FY81	FY85	FY86 ESTIMATE	FY86 LESS GRAMM-RUDMAN HOLLINGS CUT	FY87 PROPOSED
Maternal & Child Health Block Grant	455	478	478	457	478
ADAMHA Block Grant	540	490	490	469	490
Prevention Block Grant	93	89	91	87	90
Community Health Centers	324	383	400	396	565[a]
Family Planning	162	143	143	136	---
Black Lung	4	3	3	3	---
Migrant Health	42	44	45	43	---
Childhood Immunizations	30	54	57	54	56
AIDS[b]	---	144	244	234	213

a Includes Community Health Centers, Family Planning, Black Lung and Migrant Health, whose FY86 appropriations total $591 million.

b Represents funds available for AIDS drawn from various agencies within the Department of Health and Human Services.

Source: U.S. Budget, FY82 - FY87.
H.R. 3424, Appropriations for Department of Labor, Health and Human Services, and Education...for the fiscal year ending September 30, 1986.

HUMAN SERVICES

For the sixth year in a row the Administration proposes to eliminate the Community Services Block Grant, the major base of support for community tion programs. It also proposes to eliminate the Legal Services Corporation and the Work Incentives Program. As the demand for emergency food and shelter increases in many cities, no funding is included in the proposed budget for either. The human service programs included in this chapter, which provide assistance to low income, elderly and disabled persons, are cut by $315 million this year as a result of Gramm-Rudman-Hollings and would be cut in FY87 by nearly $800 million more.

The Community Services Block Grant, created in 1981 and funded at $351 million ($370 million before the Gramm-Rudman-Hollings cut), would be phased out during FY86, with over half its funds rescinded, and eliminated in FY87.

The Legal Services Corporation, also slated for elimination, is at $292 million for FY86 after the Gramm-Rudman-Hollings cut. The administration suggests that the Social Services Block Grant includes adequate authority to fund legal services activities through state and local governments, that state and local bar associations have developed programs to provide free assistance to indigent clients, and that it expects these efforts to continue to grow, consistent with private attorneys' ethical obligations to provide such free services.

The Administration proposes to rescind $46 million from this year's appropriation for the Work Incentives Program and eliminate the program altogether in FY87. The budget states that the program is no longer needed because the Job Training Partnership Act requires that equitable services be provided to AFDC recipients and because a mandatory work experience program is proposed for AFDC.

Several human service programs would receive modest increases in FY87: the older American volunteer programs, the Social Services Block Grant, Head Start, aging programs and family social services. In contrast, rehabilitation services would have a $75 million rescission during FY86 and an additional cut in FY87, mainly from state vocational rehabilitation block grants.

No funds are proposed in the budget to continue the emergency food and shelter program of the Federal Emergency Management Agency. That program is funded at $70 million in FY86. Indeed no funds are included anywhere in the budget for any emergency food and shelter assistance. The Temporary Emergency Food Assistance Program of the Department of Agriculture, which was just reauthorized in the farm bill, also would not be funded in FY87.

SELECTED HUMAN SERVICES PROGRAMS BUDGET AUTHORITY
(dollars in millions)

PROGRAM	FY81	FY85	FY86 APPROPRIATION	FY86 LESS GRAMM-RUDMAN-HOLLINGS CUT	FY86 PROPOSED RESCISSIONS	FY87 PROPOSED
COMMUNITY ACTION						
VISTA	33	19	20	19		19
Older American Volunteer Programs	89	104	104	100		104
Legal Services Corporation	321	313	306	292		0
Community Services Block Grant	527	372	370	354	-182	4
TOTAL	990	808	800	765	-182	127
SOCIAL SERVICES						
Social Services Block Grant	2,991	2,725	2,700	2,584		2,700
Head Start	814	1,075	1,087	1,040		1,075
Aging Programs	674	701	702	672	-11	689
Family Social Services	506	770	777	755	-6[a]	818
Work Incentives	365	267	220	211	-46	0
Native Americans	34	29	29	28	-2	27
Development Disabilities	49	76	80	77	-4	73
Rehabilitation Services	924	1,234	1,362	1,310	-75	1,225
TOTAL	6,357	6,877	6,957	6,677	-144	6,607
Emergency Food and Shelter Program	-----	90[b]	70	70		0
HUMAN SERVICES TOTAL	7,327	7,775	7,827	7,512	-326	6,734

[a] At the same time that a rescission of $6 million is requested for research and demonstration and adoption opportunity activities, a supplemental of $100 million -- $93 million for foster care and $7 million for adoption assistance -- is requested to meet prior year claims.
[b] Includes $70 million appropriated in August, 1984 and spent in FY85 and a $20 million supplemental appropriated during FY85.

SOURCE: Budget of the United States Government, Appendix, FY83, FY87
"U. S. Department of Health and Human Services, The Fiscal Year 1987 Budget"

INCOME SECURITY

While a record increase of nearly $27 billion is projected for Old Age and Survivors Insurance in FY87, other income security programs -- Aid to Families with Dependent Children, child support enforcement and refugee and entrant assistance -- are slated for cuts. While many income security programs are exempt from the Gramm-Rudman-Hollings sequestration provisions, all were affected in the area of administrative costs. Several programs which benefit low income people, including Low Income Home Energy Assistance, child support enforcement and refugee and entrant assistance, are not exempt and suffered 4.3 percent cuts in FY86.

SOCIAL SECURITY

The growth in social security benefit outlays is expected because of a projected increase of 703,000 beneficiaries; a higher average benefit amount due to higher earnings of newer beneficiaries; and the annual cost-of-living increase, estimated at 3.7 percent payable in January 1987.

The budget also takes into account the effects of a pending legislative proposal to accelerate collection of FICA deposits from state and local government employers. The proposal would yield an estimated $317 million in FY87 and over $1 billion in five years from accelerated payments and recurring interest.

SUPPLEMENTAL SECURITY INCOME

Benefit payments are expected to increase for Supplemental Security Income (SSI) in FY87 due to the 3.7 percent cost-of-living adjustment payable in January 1987 and a projected increase of 99,000 SSI recipients. The budget request also includes $34 million in cuts from unspecified legislative proposals addressing coordination among various federal cash benefit programs.

AID TO FAMILIES WITH DEPENDENT CHILDREN

While AFDC benefits are exempt from sequestration under Gramm-Rudman-Hollings, administration and research activities are not, and these were reduced by nearly $2 million in FY86. Outlays for AFDC are expected to decrease in FY87, in spite of modest increases in caseload and benefit payments, because of error rate liabilities to be applied to the states in FY87 and estimates of increased child support collections on behalf of AFDC recipients. In addition the budget includes $188 million in proposed cuts for FY87:

- Federal matching to states with particularly high administrative costs would be reduced from 50 percent to 25 percent -- a $15 million cut.

- States would be required over three years to have all employable adult AFDC applicants participate in job search, and all employable recipients register and participate in job search and other work activities. It is estimated that this will reduce benefit costs by $252 million, but $200 million of this would be used to pay half of the state costs associated with implementation of the "work opportunities program" -- a net cut of $52 million.

- Caretaker benefits would end when the youngest child turns age 16 -- a $101 million cut.

- Single minor parents would be required to live with their parents to be eligible for AFDC -- a $20 million cut.

UNEMPLOYMENT COMPENSATION

Outlays are estimated to increase for unemployment compensation because the decline in the projected average unemployment rate from 6.8 percent in FY86 to 6.6 percent in FY87 is more than offset by an increase in the average weekly benefit amount. In addition the Administration proposes extending federal/state unemployment insurance coverage to railroad employees. After a transition period, all rail workers would be eligible for generally higher, state benefits.

REFUGEE AND ENTRANT ASSISTANCE

An $88 million rescission proposed for refugee and entrant assistance programs in FY86 would eliminate targetted assistance ($50 million) and educational assistance ($17 million), two programs which provide assistance to local governments with high concentrations of refugees and entrants. In addition the Administration proposes to funnel all cash and medical assistance to refugees and entrants, including costs currently borne by the AFDC and Medicaid programs, through the refugee and entrant assistance program under uniform eligibility rules tailored to refugee circumstances. The Administration also proposes to limit money to the states for initial resettlement of refugees to the first 18 months after a refugee arrives in the United States, rather than 36 months, as is now the case. These changes would cut $49 million from the FY87 budget.

SELECTED INCOME SECURITY PROGRAMS BUDGET AUTHORITY
(dollars in millions)

PROGRAM	FY81	FY85	FY86 APPROPRIATION	FY86 LESS GRAMM-RUDMAN-HOLLINGS CUT	FY87 PROPOSED
Social Security Trust funds					
OASI	121,572	177,923	181,501	181,501	208,285
DI	12,992	20,602	22,383	22,383	20,246
Subtotal, OASDI	134,564	198,525	203,884	203,884	228,531
Supplemental Security Income	7,227	9,442	9,902	9,870	10,535
AFDC	8,484	8,572	8,996	8,995	8,203
Child Support Enforcement	-----	635	619	586	729
Low Income Home Energy Assistance	1,850	2,100	2,100	2,010	2,100
Unemployment Compensation	18,104	28,592	25,400	25,400	25,411
Refugee and Entrant Assistance Programs	902	444	428	410[a]	374

[a] A rescission of $88 million is proposed for refugee and entrant assistant for FY86.

SOURCE: The Budget of the United States Government, Appendix, FY83, FY87.

PUBLIC SAFETY

CRIMINAL JUSTICE

The Administration's FY87 budget request for all federal law enforcement and justice functions is $7.1 billion, an increase of half a million dollars over the FY86 level. The total FY87 Department of Justice (DOJ) budget is $4.2 billion, $225 million more than the amount authorized in FY86. Over half (60 percent) of the additional funds requested would be used for the expansion and modernization of federal correctional institutions.

The budget contains no funds for programs which currently provide direct financial assistance to state and local governments' criminal justice systems. It also requests that all unobligated funds appropriated for these programs in FY86 be rescinded.

The budget request for the Office of Justice Programs is $74.4 million, $130 million less than the amount appropriated for FY86. Approximately half of this reduction would result from the proposed elimination of the state and local grants program authorized in the Justice Assistance Act of 1984, which was funded at $60 million in FY86 (and which includes $9.3 million from juvenile justice programs not spent in FY85). Eighty percent of the program's funds are awarded to states through formula grants with pass-through provisions to local governments. The remaining 20 percent of the program's funds are distributed as discretionary grants and used for training, technical assistance and demonstration projects.

For the sixth consecutive year, the Administration is proposing to eliminate the juvenile justice and delinquency prevention programs, which Congress has funded at $67.6 million since FY82. The Administration's repeated attempts to eliminate these programs are based in part on the presumption that the programs' primary objectives -- the deinstitutionalization of status offenders and the separation of juvenile from adult offenders -- have been largely accomplished. Also slated for termination is the Regional Information Sharing System program, funded at $9.9 million in FY86, which provides assistance to state and local law enforcement agencies in the exchange of intelligence information.

The combined budget request for the National Institute of Justice and the Bureau of Justice Statistics is $39 million, a $3 million increase from FY86 levels. Funding for other programs of the Office of Justice Programs would stay at current levels: $4.4 million for the missing and exploited children program, $11.4 million for the public safety officer's benefits program, and $1.2 million for the emergency assistance program which provides assistance to state and local government in cases where the Attorney General has determined that a law enforcement emergency exists.

The funding level requested for the Crime Victims Fund is being reduced from $100 million in FY86 to $35 million in FY87. Money for this fund is derived from federal criminal fines and penalties and therefore is not included in the Department of Justice's total budget request.

The Administration is requesting $1.28 billion for the Federal Bureau of Investigation (FBI), a $69 million increase over FY86. This amount includes $108 million to assist state and local law enforcement agencies by providing them training, laboratory, identification and information services. The budget request for the Drug Enforcement Administration (DEA) is $411.3 million, $31 million more than was appropriated in FY86. DEA's budget includes $25 million for cooperative law enforcement activities with state and local governments, including training, laboratory analysis and expert testimony. Beginning in FY87, state and local officials will be charged for the cost of food, lodging and travel while attending both DEA and FBI training.

The budget request for the Community Relations Services (CRS) is $32 million, approximately the same as the FY86 level. Only $7.1 million of this amount will be used to provide assistance to communities in preventing and resolving difficulties arising from racial and ethnic conflicts and discrimination, which traditionally has been CRS's sole responsibility. The remaining funds will be used for the processing and resettlement of Cuban and Haitian entrants.

Rescissions

The Administration is requesting rescissions, totalling $122 million, for the following programs: State and Local Assistance, Juvenile Justice, Mariel Cubans and the Regional Information Sharing System. The rescissions, combined with an $8.7 million reduction in funding for all programs of the Office of Justice Programs resulting from DOJ's compliance with Gramm-Rudman-Hollings, would terminate these four programs which provide assistance to state and local governments. It should be noted that funding for these programs has already been informally deferred by the Administration.

Summary

This year's budget reflects the Administration's policy of continuing to increase expenditures for federal criminal justice and law enforcement activities while significantly reducing the federal role in assisting state and local criminal justice systems. The $4.2 billion requested for the Department of Justice for FY87 represents a 78 percent increase over the FY81 levels. State and local governments, however, have been excluded from this growth in funding. Between FY81 and FY85, when funding was first made available through the state and local assistance program, the only programs which provided direct financial assistance to states and localities were those relating to juvenile justice and prevention, whose funding have remained relatively constant. The proposed elimination of these programs represents an end to the partnership between the three levels of governments established almost 20 years ago through the Law Enforcement Assistance Administration (LEAA) -- the primary source of federal aid to state and local criminal

justice systems between FY69 and FY80. In contrast with the Administration's FY87 budget, $895 million, or 42 percent of DOJ's budget was appropriated for LEAA in FY75. Approximately $480 million of that amount was allocated to state and local governments through formula grants.

CIVIL DEFENSE/EMERGENCY PREPAREDNESS

Unlike previous years, the Administration's FY87 budget request for the Federal Emergency Management Agency (FEMA) does not call for significant changes in funding for civil defense and emergency preparedness activities. The budget proposes $250.7 million for the agency's major component -- Emergency Management Planning and Assistance; this is $43.4 million less than the amount authorized for FY86. Total budget authority for this component, however, would essentially remain at current levels since the proposed reduction is accounted for mainly by a transfer of activities to the National Flood Insurance Fund which were funded at $52 million in FY86. Between FY81 and FY85, funding for activities which are now consolidated under Emergency Management Planning and Assistance increased 90 percent, from $172.5 million to $329 million. This funding decreased by $35 million in FY86.

The budget proposes $99 million for civil defense, $7 million less than FY86 levels. The Comprehensive Emergency Preparedness Planning program, which assists state and local governments in improving their capacity to prepare for and respond to disasters and emergencies, is being funded at $6.2 million, the same amount authorized in FY86. The Radiological Emergency Preparedness Program, which assists state and local governments in improving their capacity for dealing with radiological accidents occurring at nuclear facilities and resulting from the transportation of radioactive materials, would be funded at the current level of $3.6 million. The Administration is seeking a 57 percent reduction from FY86, or a total of $7.9 million, for FEMA's training and fire prevention programs. The activities of the U.S. Fire Administration, which supports state and local fire protection and emergency rescue efforts, are being terminated in FY87.

Federal preparedness activities are being funded at $134.2 million, a $19.3 million increase over FY86 levels. These are the only activities under the Emergency Management/Planning and Assistance component for which an increase is sought.

The Administration is again not requesting new funding authority for the National Insurance Development Fund. This supports the Fair Access to Insurance Requirement Plan/Riot Reinsurance program, which provides reasonable access to essential property insurance in urban areas, and the Federal Crime Insurance program, which provides burglary and robbery insurance on properties where coverage is not available in the private market. The Federal Crime Insurance Program has been extended until March 17, 1986. The budget proposal assumes there will be no new policies issued subsequent to that date. However, $14.5 million, an $8.4 reduction from FY86, is requested to cover costs associated with unexpired policies.

SCIENCE & TECHNOLOGY

DEPARTMENT OF COMMERCE

The Administration's FY87 request eliminates, curtails, or leaves unimplemented many important Department of Commerce (DOC) programs designed to apply federal research and development efforts to local government.

The Office of Productivity, Technology and Innovation (OPTI) budget was cut in FY86 to $3.0 million from $3.3 million in FY85. In FY87 OPTI's budget will be cut even more to $2.2 million, with total elimination of the Office scheduled for the end of the fiscal year. OPTI has served cities by developing creative financing techniques for small business research and development; technology transfer methods to better utilize federal laboratory technology; and other activities that promote small business innovation. Elimination of OPTI would have a very detrimental effect on cities that rely on it as a catalyst for promoting small business development through scientific and technological innovation.

The DOC's budget contains no direct funds for the operation of the Center for the Utilization of Federal Technology (CUFT) as mandated by Section II of the Stevenson/Wydler Act. No funds have been appropriated to CUFT since FY84, forcing it to rely on document sales. This has greatly reduced the ability of CUFT to serve local governments in technology transfer under the Stevenson/Wydler Act. Moreover, DOC's budget also includes no funds for the establishment of Centers for Industrial Technology under Section(b) of the Stevenson/Wydler Act.

The Administration's request calls for the Small Business Innovation Research (SBIR) program, currently under the NSF, to be transferred to the DOC. This request is part of the proposed transfer of the Small Business Administration to the DOC.

NATIONAL SCIENCE FOUNDATION

The National Science Foundation (NSF) budget calls for increases in most program areas.

The FY87 budget for the National Science Foundation, which includes a $31 million carryover, is $1.7 billion, a small increase of 6.3 percent above FY86 levels. NSF programs received an across-the-board funding increase, with the largest increase of 18.9 percent for the Science, Technological and International Affairs (STIA) program. However, there is no provision in the FY87 budget to restore the Intergovernmental Program of STIA. This program was the only NSF effort to assist state and local governments in the use of federal science and technology.

TRANSPORTATION

The Administration's proposed FY87 budget calls for large scale reductions in transportation programs of concern to cities, renewing many proposals put forward previously and rejected by Congress, along with structural proposals for program delivery which could cause great difficulty at the local level.

Public Transportation

The Administration proposes an overall reduction in public transportation funding of 65 percent, from $3.5 billion in FY86 after the initial Gramm-Rudman-Hollings 4.3 percent cut to $1.2 billion in FY87. This proposal includes: 1) the end of all general revenue funding for public transportation, with sole funding reliance on the one-cent gasoline tax set-aside; 2) the end of the public transportation discretionary program, which funds rail transit new starts and rail expansions; 3) the elimination of operating assistance for all but the smallest urbanized and rural areas; and 4) the end of separate funding for the Interstate Transfer-Transit program.

The $1.2 billion transit funding generated by the gas tax would be placed in a new Ground Transportation Block Grant, which, when combined with $2.2 billion in highway funding, would create a state-run block grant with some pass-through to urbanized areas for use on highway or transit projects. City officials have expressed concern that this proposal is not workable because of the large state role, substantial budget cuts, and potential friction between highway and transit interests.

Highways

The FY87 budget proposes a rise in the federal highway program of 1.7 percent from $12.2 billion in FY86 following a 4.3 percent Gramm-Rudman-Hollings initial cut, to $12.4 billion in FY87. The Administration proposes two new block grants in this area. The first would combine the Interstate Construction, Primary and 4R programs. The second would absorb the Federal Aid Urban System (FAUS), Secondary System, and off-systems bridges. Both would be run by the states and provide considerable latitude regarding state use of funds in urban areas. In its current form, the FAUS program has provided great assistance to cities, and there are significant problems in melding it into a state block grant.

Funding for Interstate transfers -- which would be required to fund both highway and transit substitute projects -- would be cut by 37 percent, from a transit/highway total of $791.4 in FY86 following the 4.3 percent Gramm-Rudman-Hollings cut, to $500 million in FY87.

Airports

The Airport Improvement Program, which funds development and rehabilitation of the nation's airport facilities, would be cut by 19.5 percent in the Administration's proposed FY87 budget, from $885 in FY86 after the Gramm-Rudman-Hollings 4.3 percent initial cut, to $713 million in FY87.

AMTRAK

As in FY86, the Administration proposes the elimination of all federal funding for the AMTRAK passenger rail system. Congress cut the program by approximately 15 percent in FY86 following the Administration's initial proposal to end funding, but has expressed a strong overall commitment to the AMTRAK system.

Summary

The proposed budget represents a continuation of the Administration's desire to shrink the national commitment to transportation funding, with transportation programs of concern to cities a special target. While the Congress has expressed strong opposition to these specific cuts, if deadlock ensues within the budget process, and Gramm-Rudman-Hollings budget cuts of approximately 25 percent are enacted in transportation programs, the damage to American mobility, development and infrastructure would be significant.

TRANSPORTATION BUDGET AUTHORITY
(dollars in millions)

	FY81	FY85	FY86	FY86 Less GRAMM-RUDMAN HOLLINGS	FY86 RESCISSION PROPOSAL	PROPOSED FY87
Urban Mass Transportation Administration						
Discretionary Grants	1,970.0	1,120.0	1,045.5	1,000.5	297.7	----
Bus & Bus Facilities	580.0	130.0	145.0	138.8		----
Rail Modernization	945.0	487.5	430.0	411.5		----
New Starts	385.0	422.5	385.0	368.5		----
Planning & Miscellaneous	60.0	80.0	85.5	81.8		---- [a]
Formula Grants	1,455.0	2,449.5	2,150.0	2,057.6		1,220.0 [a]
Operating Assistance	1,105.0	875.0	870.0	832.6		----
Capital Grants	305.0	1,574.5	1,168.5	1,224.9		1,220.0
Research & Training	76.5	81.7	31.6	30.8		(19.5)
Small Urban Rural	73.0	(71.8)	(63.0)	(60.3)		(28.7)
Interstate Transfer	865.0	250.0	218.8	210.2		----
Other	10.0	250.0	227.0	217.2		
UMTA Total	4,449.5	4,151.2	3,672.9	3,516.3		1,220.0
Federal Highway Administration						
Federal Aid Highways	8,974.8	14,240.0	15,344.2	14,684.4		$12,770.0
(obligation ceiling)	----	13,250.0	12,750.0	12,201.8		12,420.0
Interstate Construction	3,676.5	4,100.0	3,900.0	3,732.3		----
Interstate 4R	249.3	2,400.0	2,300.0	2,201.1		7,793.0 [b]
Primary	1,751.9	2,000.0	1,900.0	1,818.3		----
Rural & Small Urban	456.2	500.0	1,500.0	1,435.5		----
Urban	891.9	700.0	675.0	646.0		2,200.0 [c]
Bridge	937.6	1,750.0	1,750.0	1,674.8		1,250.0
Safety & Other	1,011.4	2,190.0	2,280.0	2,182.0		1,026.9
Interstate Transfer	----	600.0	600.0	574.2		500.0
Miscellaneous	130.5	202.0	----	----		----

Source: U.S. Budget, Appendix, 1986 IR 1-77, II 41.
U.S. Budget, Appendix, 1983 IQ 1-69.

a Represents a new block grant funded by the one-cent gas tax and distributed by formula for transit or highway uses.
b Represents a new proposed block grant, composed of Interstate Construction, Interstate 4R and Primary.
c Represents a new block grant composed of Federal Aid Urban System, Secondary, Off-System Bridge.

VETERANS

The Veterans Administration (VA), the largest independent federal agency, provides medical, compensation, education, and other programs for the nation's 27.8 million veterans, eligible family members, and survivors of deceased veterans. Program services provided in cities include health care services, pension and compensation programs for the elderly and the disabled, and education assistance efforts.

The VA's proposed FY87 budget requests $26.7 billion in new budget authority--approximately $677 million less than Gramm-Rudman-Hollings-adjusted FY86 appropriations. This reverses recent increases in the VA budget authority; compensation and pension accounts are increased while most other programs are decreased. The budget includes proposals for $15.6 billion for income security programs (up from $15.3 billion in FY86), $665 million for education, training, and rehabilitation programs (down from $1 billion in FY86), no funds for the housing loan guarantee revolving fund (down from $200 million in FY86), $9.5 billion for medical care and construction programs (down from $9.9 billion in FY86), and $839 million for other veterans' benefits programs (up from $796 million in FY86). Staff reductions of 7,557 full-time equivalent employees are projected.

VETERANS ADMINISTRATION BUDGET AUTHORITY
(dollars in millions)

	FY81	FY85	FY86	FY86 LESS GRAMM-RUDMAN HOLLINGS CUT	PROPOSED FY87
Income Security	13,210	15,089	15,383	15,378	15,616
Education, Training, Rehabilitation	2,351	1,180	1,054	1,015	665
Housing	-0-	360	200	200	-0-
Hospital and Medical Care	6,919	10,005	10,156	9,990	9,581
Other Benefits	690	828	828	796	839
Deductions for Offsetting Receipts	-3				
Totals	23,167	27,408	27,613	27,379	26,702

Source: U.S. Budget, FY83, FY87.

INCOME SECURITY

The FY87 request for Income Security programs--compensation, pension, burial benefits, and insurance programs--amounts to $15.6 billion, $238 million more than the adjusted FY86 budget appropriation. The request includes proposed legislation for a 3.7 percent cost of living adjustment for compensation and pension beneficiaries.

EDUCATION, TRAINING, AND REHABILITATION

The FY87 education, training, and rehabilitation program budget authority of $665 million is $350 million less than adjusted FY86 levels. Three VA programs--Readjustment Benefits, the All-Volunteer Force Educational Assistance program (the new GI bill) and the Post-Vietnam Era Education program--provide education, training, and rehabilitation benefits to eligible veterans and military personnel. The President proposes to terminate the new GI Bill and replace it with another less expensive education program, the Veterans Education Assistance Program. And, as in past years, the President will propose legislation to repeal the VA's authority to make education loans.

HOUSING

Guaranteed loan commitments and direct loan obligations for mortgage loans in FY87 are estimated at $14.7 billion and $1.0 billion, respectively. The Administration proposes to increase the loan origination fee charged on VA-guaranteed housing loans and vendee loans (loans made to both veterans and non-veterans who purchase property that the VA has acquired through defaults) from the current one percent to two percent of the mortgage amount in 1987, 2.5 percent in 1988, 3.0 percent in 1989, and 3.8 percent in 1990. Veterans with service-connected disabilities would continue to be exempt from the fee. It is anticipated that 200,000 home loans will be guaranteed in FY87, an increase of 18,000 from FY86. No funds are requested for the loan guarantee revolving fund in FY87; $200 million was appropriated in FY86.

HOSPITAL AND MEDICAL CARE AND CONSTRUCTION

The proposed FY87 budget authority for hospital, medical care, and construction is $9.5 billion, a $400 million decrease from FY86 appropriations. The FY87 budget authority will provide treatment to 57,354 fewer hospital patients and 1,114,000 fewer outpatients than in FY86. In addition, medical staff will be reduced by 7,443 full-time equivalent employees.

The Administration is proposing three major changes within the medical care authority of the VA.

- Restructure the VA's long-term care policy by shifting emphasis from VA-owned facilities. The President's proposals would increase

resources for non-institutional care programs through which care for elderly veterans would be limited at VA facilities and shifted to partially federally funded state and community facilities and home care.

- Extend the means-tested eligibility rules requiring that all veterans with non-service connected disabilities with incomes above twice the VA pension level purchase private medical care before becoming eligible for VA-provided care at no charge. This was proposed last year as well.

- Require private health insurance policies to cover the costs of treatment of veterans' non-service-connected disabilities.

Proposed FY87 authority for construction of hospitals and extended care facilities is placed at $465 million ($57 million of which is available from prior years' appropriations), a substantial decrease from the FY86 level of $637 million despite the fact that as the veteran population ages, the demand for long-term care, especially among veterans over age 75, is likely to rise. Forty-two million dollars of the request is for grants to states for the construction or repair of state homes for the care of aging veterans. This $21 million increase from FY86 levels is evidence of the VA's policy of encouraging the establishment of state and community long-term care facilities.

GLOSSARY

APPROPRIATION

The actual amount of funds Congress makes available for a program or agency in a fiscal year. An appropriation is the most common means of providing budget authority, and usually follows an authorization bill. Appropriations simply represent the maximum amount an agency may spend during the specified time period.

AUTHORIZATION

Legislation which establishes or continues a federal program or agency, specifies its general goals and conduct, and usually sets a ceiling on the amount of money which can be spent for it (in some cases, "such sums as may be necessary"). Authorizing legislation normally is enacted before an appropriation or other kind of budget authority.

BUDGET AUTHORITY (BA)

Budget authority is the permission granted to an agency or department to make spending commitments. This includes hiring workers (committing funds for salaries), contracting for procurement or any other purpose (committing funds for payment at some future date upon completion of the contract), and all other government activities. In most cases, budget authority is not the level at which a program or agency will function during a fiscal year, but is merely the upper limit of new spending commitments that can be made that year. Budget authority itself does not involve the exchange of cash.

CONCURRENT RESOLUTION ON THE BUDGET

A resolution passed by both Houses of Congress, but not requiring the signature of the President. The first budget resolution sets forth the Congressional budget for the next fiscal year and must be adopted by the Congress by April 15. The resolution shall include:

- The level of total budget outlays or total new budget authority.
- Budget outlays and new budget authority for each major functional category of the budget. These spending levels can then be enforced by points of order on the House and Senate floor against any legislation that breaches the spending or deficit levels.

- The amount, if any, of the surplus or deficit in the budget, which cannot exceed the deficit level mandated under Grumm-Rudman.

- The recommended level of federal revenues.

- The appropriate level of the public debt.

CONTRACT AUTHORITY

Contract authority is the amount of funding for which an agency may enter into binding commitments to make payments over some period of time. Contract authority may equal only one year's appropriation in the case of a program which involves single-year financing. It can also obligate the governments to make payments for much longer periods of time. In federal housing programs, for instance, contract authority of about $1 billion can translate into budget authority totaling more than $30 billion. In programs where contract and budget authority are both used to measure commitments, the contract authority figure is usually the total of the annual contributions which the program will require in one year.

CONTINUING RESOLUTION

Legislation that extends budget authority for specific existing activities when the regular appropriation has not been enacted by the beginning of the fiscal year. Continuing resolutions in recent years have been used to finance most government programs.

CURRENT SERVICES BUDGET

A budget that projects estimated budget authority and outlays for the upcoming fiscal year at the same program level and without policy changes as the fiscal year in progress. To the extent mandated by existing law, estimates take into account the budget impact of anticipated changes in economic conditions (such as unemployment or inflation), beneficiary levels, pay increases, and mandated benefit changes. The Congressional Budget and Impoundment Control Act of 1974, requires that the President submit a current services budget to the Congress by November 10 of each year.

DEFERRAL

Any action or inaction by any officer or employee of the United States which delays the obligation or expenditure of budget authority. Under the Congressional Budget and Impoundment Control Act of 1974, the President is required to report each proposed deferral to the Congress in a special message. Deferrals may not extend beyond the end of the current fiscal year and may be overturned by the passage of a resolution by either House of the Congress.

ENTITLEMENT AUTHORITY

Legislation that requires the payment of benefits to any person or government meeting the requirements established by such law, e.g., social security benefits and veterans' pensions.

FISCAL POLICY

Federal taxes, spending, and debt-management policies intended to promote the nation's economic goals, particularly with respect to employment, gross national product, price stability, and balance of payments. The budget process is a major vehicle for determining and implementing federal fiscal policy.

FISCAL YEAR

Any yearly accounting period without regard to a calendar year. The fiscal year for the federal government begins on October 1 and ends on September 30. The fiscal year is designated by the calendar year in which it ends, e.g., FY86 is the fiscal year beginning October 1, 1985 and ending September 30, 1986.

FUNCTION (FUNCTIONAL CLASSIFICATION)

The Congressional Budget and Impoundment Control Act of 1974 requires the Congress to estimate outlays, budget authority, and tax expenditures for each budget function. The functional classification is a means of presenting budget authority, outlay, and tax expenditure data in terms of the principal purposes which federal programs are intended to serve. Each account generally is placed in the single function (e.g., national defense, health) that best represents its major purpose, regardless of the agency administering the program. Functions generally are subdivided into narrower categories called subfunctions.

IMPOUNDMENT

Any action or inaction by an officer or employee of the United States that precludes the obligation or expenditure of budget authority provided by the Congress. (See "Deferral of Budget Authority" and "Rescission.")

LINE-ITEM VETO

Authority for the President to veto one or more sections, or "line-items," of an appropriations bill. Currently, the President must sign or veto the entire bill without change.

OBLIGATIONS

Spending commitments of the federal government, including contracts awarded, services rendered and orders placed, requiring future outlays -- distinct from actual payments. Obligations may not be larger than budget authority.

OBLIGATED BALANCE

The amount of budget authority committed but not yet spent. This balance may be carried forward indefinitely until the obligations are paid.

OUTLAYS

Outlays are the actual amount of dollars spent for a particular activity. In almost all cases the level of outlays usually is the most important number to examine in determining how a program has fared in the budget. The level of outlays compared to the level of revenues determines whether the budget is in surplus or deficit.

RECONCILIATION

A process used by the Congress whereby the Budget Committees direct the standing committees to make cuts or revenue changes or a certain size in their programs. The actual reductions are then packaged together in an omnibus reconciliation measure. The Congress can use the reconciliation process to adopt major substantive changes in authorizing law and appropriations levels, including the enactment of block grants and reductions and changes in entitlement programs.

RESCISSION

A bill or joint resolution which provides for cancellation, in whole or in part, of budget authority previously granted by the Congress. Rescissions proposed by the President must be transmitted in a special message to the Congress. Under the Congressional Budget and Impoundment Control Act of 1974, unless the Congress approves a rescissions bill within 45 days of continuous session, the budget authority must be made available for obligation.

SEQUESTRATION

The process by which the President, must make across the board reductions in domestic and defense programs. This process must be followed whenever the General Accounting Office, the Congressional Budget Office and the Office of Management and Budget estimate that the federal deficit will exceed by more than $10 billion the deficit level mandated under Grumm-Rudman. Under sequestration, some programs are fully or partially protected, including social security, Medicare and Medicaid, interest on the public debt, retirement programs, federal multi year legal obligations, and a few low-income programs. Other activities, including most urban programs, would have to be reduced across the board by a percentage, to be determined by GAO, which will reap the necessary outlay and deficit reductions.

SUPPLEMENTAL APPROPRIATION

An appropriation enacted as an addition to a regular annual appropriation act. Supplemental appropriations provide additional budget authority beyond original estimates for programs or activities (including new programs authorized after the date of the original appropriation act) for which the need for funds is too urgent to be postponed until the next regular appropriation.

TAX EXPENDITURES

Losses of tax revenue attributable to provisions of the federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, preferential rate of tax, or a deferral of tax liability. The Congressional Budget and Impoundment Control Act of 1974 requires that estimated levels of tax expenditures be represented in the President's budget.

TOTAL OBLIGATIONAL AUTHORITY (TOA)

Legal authority to incur obligations, make payments, borrow money to make payments, enter into contracts and incur other obligations. The concept is similar to but more inclusive than "budget authority."

TRUST FUNDS

Federal funds used to carry out specific purposes and programs under trust agreements or statutes (social security and unemployment trust funds, for example). These funds may not be used for purposes other than which they are intended unless the Congress specifically authorizes it.

UNEXPENDED BALANCE

The amount of budget authority unspent and still available for future spending; the sum of the obligated and unobligated balances.

UNOBLIGATED BALANCE

The amount of budget authority not yet obligated. In one-year appropriations, this unobligated balance ceases to be available after the end of the fiscal year. In multiple-year appropriations, the unobligated balance may be carried forward and remain available for later obligation.